

1966

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American Institute of Certified Public Accountants

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The Institute examines itself

Is the Institute's policy-making-structure-ready for the future? A committee of three, together with a private consultant, has been charged by the executive committee to look into the question and report its findings to Council at the spring meeting.

The members appointed to the committee are: James VanderLaan, chairman, Colorado; Walter J. Oliphant, Illinois; and Kenneth S. Axelson, New York. They will be working with Robert Greenleaf, a former American Telephone & Telegraph Co. executive who has conducted similar studies for the Ford Foundation, the Russell Sage Foundation, and other charitable and business organizations.

First computer program research study is in the mail

Computer research study no. 1 is now being distributed to all members in public practice. It contains the results of the AICPA/System Development Corporation survey together with voluntary comments received from participants who returned their questionnaires.

This is the first of a series of studies, based on the AICPA/SDC research project results (*The CPA*, Dec.65, p.1), which explore the impact of computers on public accounting practice.

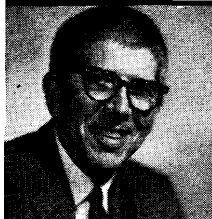
Members not in public practice can receive a free copy of the study by writing to the Institute. Extra copies are available at \$1 each.

CPA career ads available

Like to spread the good word about career opportunities in accounting? A new edition of Institute ads regarding careers as a certified public accountant is now available without charge from the Institute. The ads are especially suited for high school yearbooks and newspapers.

Also in this issue . . .

Broader co-operation between accounting educators and accounting practitioners could result in an awards program for accounting writing and in accreditation of accounting programs (page 8). . . . More than 700 of the best Technical Information Service exchanges have been compiled and indexed in a three-volume study, soon to be published by the Institute. It may well lead to the first automated information retrieval system available to the profession (page 4). . . . At a loss for words when it comes to telling others what the profession's role in society is? The new pattern speech may be what you need (page 4). . . . Thirteen CPA firms have already participated in a unique international exchange program. If you would like to join their ranks, turn to page 5 for further details. . . . The 1966 annual meeting is taking shape. The story on page 7 previews the event.



FROM THE
PRESIDENT
ROBERT M. TRUEBLOOD

Unlimited Horizons

Opportunities for the well-prepared accountant have never been greater or more challenging — whether in business, government or in public accountancy. The shape of things to come is already apparent in the number of men succeeding to higher levels of industry and government who sprang directly from our profession — Lynn Townsend, Maurice Stans, Percival Brundage, Gerald Phillippe and Frederic G. Donner, to mention a few.

Our profession will make greater contributions to, and will continue to participate more fully in, the highest levels of industrial management by building upon the broader skills, initiative, and intellectual breadth required by modern corporate management.

New demands upon management—imposed largely by technical revolution—highlighted the need some years ago for a restudy of the education of tomorrow's business leaders. The simple fact was that a narrowly specialized training was adequate only for a career of limited scope, and that top managerial posts require a wide range of skills and a broad foundation of knowledge.

The Carnegie Corporation is sponsoring, with the collaboration of the American Institute, a Commission to Study the Common Body of Knowledge. This work is under the direction of Dean Robert Roy of Johns Hopkins University. The Commission includes

academicians, lawyers, and bankers, as well as accountants. Hopefully, the Commission's report will give some substantive indications of the knowledge which a beginning CPA should have.

The training . . .

There are already in practice many indications that the ultimate educational background of a CPA should include a master's degree. The Common Body Commission, among other things, will attempt to specify — without designing a curriculum — the kinds of knowledge and understanding of basic disciplines which will be necessary for the CPA of the future.

The effort of the Commission may do much in outlining broadly the future trends in accounting education. A very interesting panel session by members of the Commission was held in Dallas last fall. The American Accounting Association is considering a similar program at its fiftieth anniversary meeting in Miami next fall.

The final manuscript of the Common Body of Knowledge Study hopefully will be available early in 1966 and should be published shortly thereafter. The Institute is hoping to be able to organize a series of seminars around the country to provide a base for open and free discussions of the Commission's findings for educators and practitioners alike. If these plans materialize, much stimulating discussion will follow upon completion of the Commission's work.

Apart from the accountant's technical and professional knowledge, the public image of the

individual practitioner must be broadened if people are to turn to CPAs for many kinds of additional services now required by management—EDP consulting, organization planning, operations research. One means to this end is for CPAs to take a more active interest in community life. Accountants should participate in civic and cultural projects. They should become interested in social and economic activity wherever their training in compiling and interpreting objective evidence is relevant. Their knowledge and skills should be brought to bear, for example, in shaping socially desirable legislation. CPAs in Colorado recently played key roles in effecting amendments to their state laws. The profession needs more of this kind of highly commendable legislative activity.

. . . and the application

I urge each of you to review the needs and concerns of your communities in order to determine possibilities for personal participation in civic activities, as well as professional affairs. Review current legislative activities to see where you might help out with sound socio-economic programs. Discuss social and economic matters with other professional men in order to get fresh ideas and new points of view.

John Gardner, the psychologist who was president of the Carnegie Corporation prior to his present appointment to the cabinet as Secretary of Health, Education and Welfare, says in his book, *Self-Renewal*:

"Every individual, organization, or society must mature, but much depends on how this maturing takes place. A society whose maturing consists simply of acquiring more firmly established ways of doing things is headed for the graveyard—even if it learns to do

With proper training and application, there is no place for CPAs to go but up. In a speech before the Colorado Society in November, President Trueblood suggested how members might apply themselves to expand their services.

these things with greater and greater skill. In the ever-renewing society, what matures is a system or framework within which continuous innovation, renewal and rebirth can occur."

The future is full of change and challenge. To adapt to it successfully, we must conserve all that is good from the past and, at the same time, we must be curious, experimental and receptive to new ideas.

If we are innovative, I am confident that the years ahead will be exciting and rewarding—both for those of us now in practice, and for those students who represent the next generation of our profession.

How one member benefits from AICPA membership

ED. NOTE: A member may ask on occasion, "What is the Institute doing for me?" The letter below, from a local practitioner to a member of the AICPA staff, presents one answer.

We hope there are more.

I have read and heard criticism that the Institute is interested only in the national firms. I do not believe this criticism is justified because I, as a small practitioner, have obtained considerable benefit from my membership. Your prompt reply to my letter of October 27 regarding the proper method of announcing the dissolution of one partnership and the formation of a new one is one example. It is very comforting to know that members can obtain assistance of this nature.

I have attended several professional development courses prepared by the Institute which have helped me considerably and I plan to attend more of them. I believe those who criticize have not taken full advantage of the opportunities offered by their membership in the Institute.

GEORGE L. KENNER
Houston, Texas

Requests for "Dirty Business" editorial continue to mount from CPAs, industry

Reprints of John L. Carey's editorial "The 'Dirty Business' Attitude" (*The CPA*, July-August 65, p.4) have been sent to a local practitioner . . . a national CPA firm . . . Xerox Corporation . . . and the University of Southern California.

In fact since November 1 well over 3,700 copies of the column have been sent on request to CPAs, educators, financial executives, and industry leaders.

"We would like to give these to our clients," notes one letter.

"These are to be used in connection with the local chapter's education committee activities," says another.

"I would like to distribute the article to accounting students at the university," a professor of accounting writes.

One officer of a large industrial company who had asked for reprints elaborated on his thoughts over the phone:

"We are having a serious problem filling jobs here. We have about ten accounting positions to fill, and we just can't get the right people.

"And it's not only us. Other companies have the same problem.

"The way I see it, it's a selling problem — we have to convince young people starting on their careers that accounting is, to paraphrase Mr. Carey, a 'socially useful occupation.'"

Judging from the number of reprints that have been sent out, forward-looking people around the country have embarked on a campaign to do just that.

PD staff training program draws from local firms coast to coast

The Institute's professional development staff training program has completed another year, and this is the kind of year it was:

There were eleven presentations at sites from Massachusetts on the East Coast to California on the West Coast.

There were approximately 660 participants, about the same as last year. They attended in groups varying in size from 8 to 147.

Since the staff training program is geared for men with up to three years' experience in the profession, it follows that the participants are generally youthful. This year, 50 per cent were under twenty-five years of age, the largest concentration being in the twenty-two—twenty-five bracket.

Education? Seventy-eight per cent reported having bachelor's

degrees, and 10 per cent said they had been exposed to some graduate work.

While only 27 per cent said they had more than two years of public accounting experience, 46 per cent reported having less than one year's experience.

What size firm was represented? The largest number of participants, 42 per cent, came from firms with less than ten staff people; 36 per cent came from firms with more than twenty staff people; and 22 per cent came from firms with between ten and twenty staff people.

Were the participants satisfied with the programs, and would they recommend that their firms send others to attend? To both questions, the answer was an enthusiastic "yes."

How to get the message across: accounting's influence on society

If you have been invited to speak to college students, counselors, professors, or other accountants, the Institute's new pattern speech is yours for the asking. Entitled "Accounting — a Social Force," it describes accounting's profound influence on mankind's social and economic relationships.

► It can be used to show counselors and other educators without accounting backgrounds that accounting is a force in society that requires their respectful recognition.

► It can provide ammunition for college accounting majors as they compete in bull sessions regarding the relative social value of different careers.

► Delivered to an audience of accountants, it can make one contribution toward what John L. Carey recently called a conceptual description of the accounting profession's mission in society (JofA, Nov.65, p.61).

The speech goes further than the Institute's previous "patterns" in finding common ground with men in other disciplines. Most of the supporting evidence for its points is drawn from fields other than accounting.

The theme of the speech is that accounting is not merely the result of social and economic forces; it is also a force in itself, having a dynamic effect on social and economic history. The effect is illustrated mainly by comparing what men do in countries with and without specific levels of accounting development.

The speech also looks at the future by drawing upon some unpublished papers of social scientists who consulted with the Institute's long-range objectives committee during its recent study.

Here are some of their findings.

A behavioral scientist at Stanford University notes that the development and application of information technology has advanced to the point where the person who becomes director of information in a business would also become its over-all director.

A political scientist from the University of Chicago foresees the likelihood of a much more refined

methodology for examining the rationality of public expenditures, particularly those for research and development.

A sociologist from Columbia University sees the possibility of great expansion in the attest function by auditing not only in terms of money, but also in terms of approved social objectives such as "worker happiness" or "consumer satisfaction."

In conclusion, the pattern speech points out that "predictions about the future of accounting that have been made in the past . . . have often come true faster than expected."

Three-volume TIS guidebook may lead to automated information retrieval system

Ten times a day on the average, 2,200 times a year, the Institute's Technical Information Service receives inquiries from members asking for help in solving professional problems. The inquiries come from firms of all sizes, from every state in the Union, and even from Europe and South America.

Approximately 750 of the most interesting of the exchanges between practicing CPAs and the Technical Information Service have been compiled, edited, and indexed in a three-volume work, *Practical Accounting and Auditing Problems — A Guidebook for the Profession*.

The work is case-oriented to down-to-earth technical problems encountered by practitioners. Opinions presented are specific and the conclusions, whenever possible, are extensively supported by relevant Institute literature and other available authoritative sources.

The book, among many other situations, covers audit report cases, disclosures, liability, dividends and distribution, and poolings and purchases.

The author-editor of the work,

Edmund F. Ingalls, manager, Technical Information Service, points out in the preface that "by and large, the answers given in the book are substantially the same as those originally given on the firing line."

Conceding that probably no one will read the work at one sitting, Mr. Ingalls says that the book "is primarily a guide to be consulted as needed by the CPA practitioner."

One feature of the work is a synoptic — or digest-type — index combined with key words, approximating 3,000 to 3,500 entries, which will enable practitioners to pinpoint problems similar to their own.

All of the materials and references cited in the book are available in the AICPA library.

"When further elaborated and supplemented," Mr. Ingalls says, "I have high hopes that the index will prove useful in the future, in connection with automated information storage and retrieval."

When the book is published in early 1966, it will be offered to members at a special discount price of \$20, and to nonmembers at the regular price of \$25.

Accounting developments featured in trade magazines, leading newspapers

Business magazines, trade journals, and leading national dailies continue to cover the latest developments in the profession.

Taxation . . .

The September *Chemical Engineering Progress* warmly applauded the recommendations of the Institute's committee on Federal taxation regarding expenses in securing employment and in moving in an editorial headed "Bully for the AICPA." Commenting that such changes would benefit both companies and employees, the editorial said that "anything to ease the strain would be most helpful."

The tax committee's statements on CPA responsibility have also been receiving considerable attention. Reports on Statements on Responsibilities in Tax Practice No. 2, "Signature of Reviewer: Assumption of Preparer's Responsibility," appeared in two syndicated columns and a substantial number of local papers including the *Los Angeles Times*. Former IRS Commissioner Mortimer Caplin, in a speech reported by the *Washington, D.C., Post-Times-Herald* commended the AICPA for its "comprehensive statement of recommended standards of ethical tax practice," while urging tax lawyers to develop ethical guidelines "in solving their problems of conscience and propriety."

And the new edition of *Working With the Revenue Code—1965* was the subject of articles in *The New York Times* and the *New York Journal-American*.

. . . and corporate reporting

There were words of high praise for the accounting profession in a wide-ranging feature on CPAs' efforts to improve corporate

reporting in the October 27 issue of *Financial World*.

The story, based on interviews and writings of several leading figures in the profession, outlines some of the current issues and concludes that substantial progress is being made on complex problems that cannot be solved overnight.

The author, Samuel A. Krasney, took particular note of the resolution that material departures from APB Opinions should be disclosed, referring to it as "a giant step forward in standardizing the disclosure of financial information on a basis easily understood by

investors. . . ." In commenting on the implications to the investor of lawsuits that "charge accountants with a fiscal responsibility as well as professional accountability," he said, "Even under economic fire, many of the nation's leading auditing firms and principals retain a strong sense of public advocacy."

"Yet, despite the ever-changing problems and the difficulty inherent in setting up static, rigid boundaries of definition in areas as dynamic as corporate financial reporting in a business world as changing as the one in which we live, the accounting profession is moving ahead in a responsible fashion. . . . recent gains are certainly encouraging. Particularly since they favor increasingly broader and better evaluated public disclosure."

Exchange program asks for firms' participation

Thirteen firms with members in the Institute are participating in a program to provide practical international business experience today to the executives of tomorrow.

The thirteen CPA firms, together with more than 500 other U. S. businesses, are members of AIESEC — Association Internationale des Etudiants en Sciences Economiques et Commerciales.

Through the program, some 400 foreign students each year journey to a country other than their own and spend between ten and fourteen weeks getting firsthand experience of how businesses in other countries conduct their affairs.

In 1965, three of thirteen CPA firms — two in New York and one in Chicago — offered a total of six traineeships. During their "internship," the students served as regular audit staff members. Starting as a student exchange organization between France and Germany in 1948, the program

now includes forty member countries.

AIESEC would like more CPA firms to participate. Additional information about the program can be obtained from AIESEC-US, 51 East 42 Street, New York, New York.

"Accounting Trends"

The 19th annual edition of "Accounting Trends & Techniques," edited by William H. Hird, CPA, was published in November by the Institute.

The 322-page publication includes a special table of contents listing such topical items as the effect of the 1964 Revenue Act on accounting for the investment credit and on stock options.

The new edition of "Accounting Trends & Techniques," priced at \$18, can be ordered from the American Institute of CPAs, 666 Fifth Avenue, New York, New York 10019.

FROM THE
EXECUTIVE DIRECTOR
JOHN L. CAREY

What's Right With the Profession?

EVERY profession has its problems — and accounting is no exception. It is, of course, necessary to talk and write about the problems in order to deal with them effectively. But it is also useful, once in a while, to remind ourselves that some important problems have been solved in the past, and that there is no reason to believe that those which now confront the profession will not also be surmounted successfully.

In other words, it is easy to talk about what's wrong with the accounting profession; now and then it may be useful to consider what's right with it.

The CPA profession occupies a vitally important place in American society. There can hardly be any argument about this. The profession is more important than most people realize—more important even than many CPAs appreciate.

There is a natural time lag in public understanding. In the sense of an organized and effective group of significant numbers, the CPA profession is hardly fifty years old. It had humble beginnings and was not greatly noticed until fairly recently. But the growth in numbers of CPAs from 25,000 in 1945 to some 90,000 at present is in itself an indication of the rapid increase in demand for professional accounting services. The widespread distribution of corporate securities and the increasing numbers and influence of financial analysts have greatly enhanced the significance of independently audited financial reports which now disclose vastly more information than in earlier years. The expanding volume of bank credit — far beyond the scope of the lender's personal knowledge of the borrower's ability to repay — has led to heavy dependence by banks on independent auditors' reports. The self-assessing income tax system in the framework of increasingly complex tax laws has led to further reliance by both taxpayers and government on the CPA profession. The accelerating trend toward management by information rather than by intuition has opened up new areas of service by CPAs in the effective management of the millions of business enterprises in this country. The increasing intervention of government in the economy has developed the need for reliable information on the part of government agencies—and many of them are finding that they can readily acquire the necessary data best with the assistance of certified public accountants.

In the light of these developments, it is not too extravagant to say that if the CPA profession did not exist, it would have to be invented.

What has the profession itself accomplished in response to the increasing public demand for its services?

In approximately thirty years it has developed a strong national organization closely tied in with the independent state societies of certified public accountants. Together they include all but a very few of the practicing CPAs in the country. Internal communications,

while never perfect, have been improved so much over the last twenty-five years that there is little comparison.

In the period from 1917 to 1952 the profession developed a Uniform CPA Examination and centralized grading service now adopted by all the states, territories and the District of Columbia.

Accounting has achieved a prominent position in the curriculums of all schools of business administration, graduate as well as undergraduate, and has quietly penetrated the curriculums of the liberal arts colleges.

Over the last thirty years the profession has attracted a higher and higher percentage of college graduates until now the number of new entrants who do not possess college degrees is negligible. The proportion of new entrants with master's or doctor's degrees is steadily increasing.

The literature of the profession has been enriched more in the last quarter of a century than in all the preceding decades. Both the quantity and the quality of accounting publications are constantly improving.

Auditing standards have been developed to an extent which compares favorably with the standards of any other profession. While the subject of accounting principles has been a source of great controversy, there has been a tremendous clarification of objectives in recent years and a foundation has been made which promises rapid progress in the future.

A system of continuing education for CPAs and their staffs has been created and is now in successful operation. Efforts to make it available to more and more members of the profession are now under way.

The profession has repulsed

many attacks on its standards in the legislative halls and has defeated efforts to limit the scope of its practice. Its legislative position is now stronger than ever before.

While CPAs have not yet attained universal recognition as members of a learned profession, comparable to law or medicine, all the evidence suggests that the accounting profession is more widely understood and more widely respected with each passing year. Public relations efforts to increase the scope and accelerate the rate of public understanding are constantly expanded. Participation by CPAs in public affairs is on the increase. Their relations with universities, with government, with the business and financial community are growing stronger and are rising to higher levels.

American CPAs are extending their activities and influence into the international economy.

Long-range planning has been undertaken in a purposeful and systematic manner.

This list of accomplishments could be expanded, but it suffices to show that a great many obstacles have been overcome in the journey of this still youthful profession from its inception to the present day. Self-criticism is useful—and CPAs have an unusual capacity for it. But this healthy introspection should not be carried so far as to create the impression either among members of the profession or among those outside of it that there is nothing right with the accounting profession. Critics should be challenged to show a comparable record of progress by any other group.

The challenges which now confront the profession are no greater in relation to its present size and strength than were those of earlier days when a CPA had little to work with but his own intelligence and determination to succeed. There is no reason for lack of confidence in the profession's ability to continue its march forward on the path of progress.

Boston prepares for 1966 annual meeting—technical sessions to stress computers

The seventy-ninth annual meeting of the American Institute is scheduled for October 2-5 in Boston. This is how the program looks at this early date.

Taking its cue from the apparent success of the technical sessions at the Dallas meeting, the Boston meeting will continue to explore the computer-CPA relationship. Tentatively scheduled sessions will cover:

The art of consulting — a discussion on how to discover opportunities in management services

The use of computers in aiding small business — a session utilizing the case study approach in the application of computers to small business clients

Changing concepts of ethics — a session covering independence problems raised by computers

Other technical sessions presently planned for the Boston meeting will discuss the Common Body of Knowledge Study and the profession's "human input" needs, and new approaches in tax policy.

A session on the over-all view of the profession's environment will round out the picture. Efforts are under way to engage prominent writers on business and economics to participate in the session.

Preparations for the social side of the meeting are moving ahead, too. Arthur Koelbel, chairman of the annual meeting committee, reports that he has both the "new" and "old" Boston well in hand.

Members who favor the "historical" approach will not lack places to go or things to see in their spare time. For example, there is the "Freedom Trail," which can be covered either by foot or by vehicle. The "Trail" leads to the Boston Common and

then to the State House, where the oldest written constitution in effect in the United States is on view; the Park St. Church, in which "America the Beautiful" was sung for the first time; the Old Granary Burying Ground, which numbers among its residents such signers of the Declaration of Independence as John Hancock, Robert Treat Paine, and Samuel Adams; Faneuil Hall, the so-called "cradle of liberty"; the Old South Meeting House in which the Boston Tea Party was plotted; and the Paul Revere House, which was built in 1670.

The new Boston will be well in evidence also. Headquarters for the annual meeting is the Sheraton-Boston Hotel, a part of the recently opened Prudential Center. Among the events scheduled to take place in the new 1,012-room hotel is a concert by the renowned Boston Pops Orchestra, under the direction of Arthur Fiedler.

Members choosing to take in this event will be glad to know that the name "pops" originally referred to the happy sound of champagne corks. Mr. Koelbel notes that members and their families, who will be seated at tables during the concert, will be able to participate in this proud Boston "pops" custom.

Management Services Technical Study No. 2

"Cost Analysis for Pricing and Distribution Policies," the second of a series in technical studies in management services, has just been published by the Institute. It is available to members at a special discount price of \$2.50 (see November "CPA" insert for coupon).

Accounting practitioners, educators discuss broadening of mutual efforts

Improved liaison between accounting practitioners and accounting educators was the general aim of a November 29 meeting of representatives of the American Accounting Association and the AICPA. The specific topics discussed at the Chicago meeting included: the Common Body of Knowledge project, a possible awards program for outstanding contributions to accounting literature, continuing education, grants-in-aid, and accreditation of accounting programs.

► With publication of the CBOK report imminent, the accounting profession will want to generate extensive discussion and exposure of the findings. It was proposed that seminars be held throughout the country in which practitioners and educators can share their reactions to the CBOK report.

► Both groups endorsed the idea that an awards program would stimulate outstanding contributions to the literature of accounting. A joint program for officially recognizing the most meritorious additions to the literature each year was proposed.

► Both groups agreed that the pace of change in society and in the accounting profession in particular made continuing education of both educators and practitioners one of the most crucial problems of the profession. A number of approaches to the solution of the problem were discussed.

► The meeting afforded an opportunity for some very practical feedback on the Institute's grants-in-aid program, now in its second year. The program encourages educators and students to undertake promising research projects by of-

fering them a measure of financial support. The educators urged the Institute to consider modifications of the specifications for the grants which would encourage a more favorable response.

► The group also discussed the proposals for accreditation of accounting programs now being considered by the Association of CPA Examiners and the American Association of Collegiate Schools of Business.

Representing the AAA at the meeting were Professor Herbert Miller, Michigan State University, president of the Association; Professor Lawrence L. Vance, University of California, president-elect; Professor Glenn A. Welsch, The University of Texas, past president; and Professor Joe R. Fritzemeyer, University of Iowa, secretary-treasurer. Representing the AICPA were Robert M. Trueblood, president; Thomas D. Flynn, immediate past president; John L. Carey, executive director; and Guy W. Trump, director of education.

CPA

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***Members' views
urged on computer
program . . .***

"What members think, what they need, what they want, will determine the Institute's future activities in the computer field, . . ." John L. Carey writes on page 2. The Institute's efforts in the past six months, he explains, are only the beginning of its attack on the problem. He urges members to write the Institute their views on the subject.

***. . . as Institute
embarks on second
month research study***

A new six-month contract with System Development Corporation has been signed and the second phase of the Institute's computer research and education program is now under way. The new study will focus on the computer's role in basic management services and auditing. And, as in the case of the first six-month effort, the new study should produce additional literature and courses which will benefit members. To bolster its staff capabilities in the EDP field, the Institute plans to add one or more computer specialists.

***How effective
is the Institute?***

A questionnaire examining the effectiveness of the Institute's governing bodies and its staff has been sent to a representative sample of the membership. The returns—which in no way will identify the responding members—will be analyzed by the *ad hoc* committee on structure and be used in developing a report to be presented to Council at its spring meeting (*The CPA*, Jan.66, p.1).

The questionnaire asks, for example: What is your general feeling about the management of the Institute's affairs? How do you regard the contribution of the Institute to your personal or professional prestige? It also asks members to judge the Institute's programs and services and to indicate why, if the member so feels, such programs and services "are not all that they should be."

***APB Opinion on
accounting by lessors
out for exposure***

A proposed APB Opinion, "Accounting for Leases in Financial Statements of Lessors," is now out for exposure to state societies, industry committees, Government agencies, and other groups. The Opinion sets forth the Board's views as to the two predominant methods—"financing" and "operating"—of allocating rental revenue and expenses by lessors. The full text of the draft Opinion appears in February 1966 *Journal*.

Also in this issue . . .

CPAs in Pennsylvania form political information committee to promote legislation and to assist candidates (page 7). . . . Dr. Ezra Solomon accepts appointment as economic advisor to Institute (page 7). . . . Are the computer and Code of Professional Ethics compatible? (page 10).

CPA and Computer

LAST June the Institute contracted with the System Development Corporation for a project in research and education, broadly described as the impact of computers on the practice of accounting. The tangible results are a series of reports, which will be published in the coming weeks, and a four-day professional development course which is now undergoing refinement and testing. [Ed. NOTE: See stories on pages 3, 4.]

Both the reports and the course may be disappointing to some CPAs—either because they are too elementary, on the one hand, or too difficult to understand, on the other. But most CPAs will find it worth the effort to study them. The Institute's membership reflects a wide spectrum of understanding of computers—ranging from zero to a high degree of sophistication. No one publication or course will satisfy those at the extremes.

There is no quick and easy way to master the uses of computers in accounting practice—no “one easy lesson” which will increase the billable competence of a CPA immediately. Those who accept the proposition that they can't lick the computer, but must join it, will have to reconcile themselves to the investment of some time and money in educating themselves.

The Institute's efforts in the past six months are only the beginning of its attack on the problem. It has made a new contract with System Development Corporation for a second six-months' study, focusing on the computer's role in basic management services—at the small-client level—and in auditing. More literature and more courses will be produced. It is planned to add specialists in computer technology to the Institute's permanent staff.

A major problem in this undertaking is the fact that computer specialists and CPAs speak different languages. They have been trained in completely different disciplines. The absorption by CPAs of the knowledge and skills of EDP technicians is likely, therefore, to be a slow, and perhaps a painful, process. It is hoped that the professional development courses can speed and ease it.

Another serious problem is the apparent failure of many CPAs to grasp the full implications of the computer in relation to their own practices—and therefore to understand why they should make the effort to master it.

The computer is not merely a substitute for manual bookkeeping work. In it can be housed most, if not all, of the information a businessman needs to run his business effectively. Furthermore, the machine can be programed to analyze the data it contains in almost any manner desired, so as to produce rapidly, frequently and cheaply reports showing, for example, sales by salesmen, product line or territory; labor costs by product or plant; receivables by age; inventory reorder points; budget comparisons; and so on and so forth—not to mention trial balances, balance-sheets, income statements and tax returns.

It is not impossible that in the near future small businessmen, who cannot afford their own computers, will be able to get more, better and more timely information, at less cost, from computer installations in banks, service centers, trade associations or elsewhere than they can get from CPAs who have not learned to utilize the new tool effectively.

Also, CPAs who do not possess a basic understanding of how a computer works will find it difficult to audit the data in the machines or to advise and assist their clients on systems and controls.

How much the average CPA needs to learn about computers in order to utilize them most effectively in the client's interest is difficult to determine at this time. Presumably, in addition to system concepts, someone in each firm should understand the procedures involved in preparation of “software”—the basic information and instructions which will be translated into computer language and transmitted to the machine. The CPA should also understand computer language and programming techniques sufficiently to avoid being wholly at the mercy of technicians. He should know enough about the controls and operations of the computer itself to audit the data it contains with knowledge of what he must guard against in the way of material error or misappropriation.

This is a pretty big order, to be sure. And the acquisition of all this knowledge may not result in immediate increases in the CPA's income. But failure to acquire it may result in losses of income in the future. The conversion of a substantially larger proportion of clients' records for computer usage seems inevitable in the next five to ten years. Technological improvements are so rapid that even the experts have difficulty in keeping abreast. Time-sharing

is reducing the cost of computer service. Teletype, telephone and other communication devices make it possible to utilize computers at distant points.

The use of computers by CPAs should not be equated solely with "write-up work." The computer revolution will affect every phase of accounting practice—auditing, taxes, management services. In fact it may well tend to integrate the CPA's approach to these supposedly separate areas. As the client's data gradually tend to become a "total" computerized information system, the CPA's approach to the client's needs for external reports, and internal data for planning, control and decision-making, will tend to become a "total" approach. If it doesn't, the CPA may find himself out at the edges of the business-information field, and might even be pushed off.

What has been written here is a personal appraisal of the outlook, by one who is not an expert but has been listening to experts. It may be old stuff to most readers. It may be considered unrealistic by many. In any event, write us your views on the subject. What members think, what they need, what they want, will determine the Institute's future activities in the computer field, which could involve substantial investment.

Survey provides insight on impact of EDP on practice of accounting

Services which have been offered traditionally to clients are expanding as computers become "silent assistants" to CPAs. What are the nature and extent of these new services?

All members in public practice and education will soon receive the first AICPA/SDC computer program research study.

It contains the results of a questionnaire designed to determine the current impact of EDP on the practice of public accounting. The questionnaire, mailed to 13,888 CPA firms across the country, was returned by 3,492 firms.

Here are some of the highlights of the survey:

Almost 40 per cent of the responding firms have one or more staff members participating in EDP engagements. Nearly 25 per cent of the firms have one or more staff members currently in EDP training. Almost 7 per cent (out of 2,886 responding) have full-time employees with computer programming assignments.

Five per cent of the responding firms reported losing clients because EDP services were offered by someone else. Nearly 25 per cent said that additional clients would have been acquired

by offering EDP services.

Nearly one-third of the responding firms use service bureaus. Approximately 10 per cent use bank service centers. Less than 2 per cent use other CPAs' equipment.

The survey gives some insight as to the type and extent of EDP services presently offered by CPAs.

One hundred and sixty-nine firms are designing and producing computer programs; 236 modify and correct computer programs; 662 advise on computer selection and purchase; 629 advise clients on EDP expansion or reduction; and 754 firms (out of 3,492 responding) are conducting feasibility studies.

Many of the responding firms not presently engaged in such activities, however, reported that they are planning to offer these services in the near future.

What about dollar costs?

Reported computer purchase prices ranged from less than \$10,000 to between \$50,000 and \$100,000. The monthly rental price median is \$1,687. The site preparation cost median is \$909. The median annual salary for programmers is \$5,894. And the reported median annual salary for equipment operators is \$6,052.

ED. NOTE: The studies deal primarily with the practice of public accounting and education and will automatically be sent, therefore, to that portion of the membership so engaged. All other members can receive a copy of the computer study by writing to the Institute. Additional copies are available to all for \$1 each.

AICPA Library Adds More EDP Documents

More than 100 documents dealing with EDP that may be of interest or use to CPAs have recently been added to the AICPA library and may now be borrowed by members.

The documents cover such areas as: computer technology, development of information processing systems, computer programming, information storage and retrieval, cybernetics

and society, information processing systems, and information processing in the behavioral sciences.

A master reference list describing the documents is available at the library.

The material was submitted to the American Institute by the System Development Corporation as part of the joint AICPA/SDC computer project.

Public at large learns of accountancy and accountants as reports reach it...

from the rostrum...

State societies have been active in getting press attention for Institute speakers. Typical of these efforts were feature articles on President Robert M. Trueblood's talk before the Colorado Society, which appeared in the *Denver Post* (November 11) and *Rocky Mountain News* (November 11). Similar treatment was given to remarks by John L. Carey on the computer before two local groups in the *Philadelphia Bulletin* (November 10) and New Haven, Conn., *Journal-Courier* (November 19).

from The Journal...

Journal of Accountancy articles are reaching wider audiences as a result of efforts to bring selected articles to the attention of other magazine editors. Recent reprints or summaries have appeared in *Management Review* (December), *Fortune* (January), *Credit and Financial Management* (December), and the *Insurance Advocate* (December 18).

from the Institute...

The new edition of *Accounting Trends & Techniques* has provided material for several stories, including the *New York Times* (December 5) and *The Wall Street Journal* (November 30).

The *Times* (December 28) also commented favorably on the newly effective resolution to disclose departures from APB pronouncements.

The use of "cash flow" figures still remains a problem as indicated by a *Forbes* editor's note to a letter written by the Institute's public relations officer (December 1). It said: "*Forbes* feels that, increasingly, cash flow is at

least as important as reported earnings. Hence, in our Annual Report on American Industry we use cash flow-to-equity capital as one of our three yardsticks of profitability."

and from Fortune magazine

A two-part article in *Fortune* (December-January), "Those Uncertain Actuaries," has many items of interest to CPAs.

Written by Thomas A. Wise, author of "The Auditors Have Arrived" (*Fortune*, November-December 1960), the first part is primarily a discussion of the actuarial groups and their problems.

Views of actuaries toward accounting, as reported in the article, include these samples:

Corporate annual reports should contain "a special certificate testifying to the pension plan assets,

in addition to the auditor's certificate."

Accountants are not expected to understand actuarial methods so "are in no position to examine insurance companies' statements critically."

"They [actuaries] question the propriety of an accountant verifying the liabilities of a company whose pension plan has been established by an actuary from the same accounting firm. They are also fearful that the actuarial profession might end up simply as a branch of accounting."

The second part dealt almost exclusively with pension plans in which it reported that two CPA firms were among the 14 largest pension planning organizations. Also, accountants "have been nudging their corporate clients to report pension charges. However, the latest annual survey of the American Institute of Certified Public Accountants [*Accounting Trends & Techniques*] does not suggest that the nudging process has been very effective."

PD courses reflect demands of computer challenge

The Institute's professional development division is mounting a full-scale effort to assist members in meeting and adapting to the computer challenge.

In various stages of development are:

- A two-day course on "Auditing EDP Installations" which will follow up the presently available PD course "An Introduction to ADP."

- An intensive four-day course tentatively titled "Information Processing Systems: A Foundation Course in EDP" which was prepared by System Development Corporation as part of the Institute's computer research and education program.

The PD division is also considering the possibility of preparing a course which would provide

CPAs with the knowledge needed to work effectively with service centers.

The popular management services lecture program, "Systems and Procedures Engagements," is now being revised and modified to include the problems encountered when EDP equipment is in use.

Much of what is planned by the PD division in the way of new courses has been sparked by the impact of the computer on the accounting profession, and the interest shown by members in "An Introduction to ADP," the first of the PD "computer" courses. "Introduction" is still going strong, too, as evidenced by the fact that the seven presentations scheduled this past fall were attended by nearly 700 participants.

**Just Published—A Complete and
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ETHICAL STANDARDS OF THE ACCOUNTING PROFESSION

BY JOHN L. CAREY AND WILLIAM O. DOHERTY

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HERE ARE SOME EXAMPLES OF THE 170 PRACTICAL QUESTIONS ON WHICH INFORMAL INTERPRETIVE OPINIONS ARE PROVIDED

May a CPA enter into an agreement with a bookkeeping company to prepare tax returns on the basis of work sheets provided to the company by its customers?

May a CPA make use of an outside service bureau for the processing of clients' tax returns?

May a CPA, as an expert witness in a damage suit, receive compensation based on the amount awarded the plaintiff?

May a CPA send collection letters to his clients' customers?

Three CPA firms wish to form an association to be known as "Smith, Jones & Associates." Is there any impropriety in this?

Is a CPA who has formed a partnership with a non-certified public accountant ethically responsible for all the acts of the partnership?

May a CPA make use of an outside mailing service for the confirmation of receivables and payables?

Q&A's From the New AICPA Book on Ethical Standards

Tax evasion by client

Q. A member learned that a client withheld from him information on a substantial part of his income, with the result that a faulty tax return was prepared and filed. What should the member do?

A. He is not obliged to inform anyone but the client that a violation has occurred. In order to protect himself from the charge

of collusion, he should write the taxpayer that the additional income should be reported in an amended return. If the client refuses to correct the return, the member should withdraw from the engagement.

CPA title, multiple certificates

Q. Frequently CPAs are referred to as holding certificates from more than one state. Is there

any objection to this practice?

A. Such a practice might mislead others into believing that the number of states in which a CPA is certified has some significance with regard to his professional standing. For this reason the Institute itself refrains from any such references when preparing biographies of authors, speakers, and other members.

CPAs in Pennsylvania form committee to promote bills and assist candidates

Pennsylvania may have a professional first—the first political information committee of certified public accountants (PIC-CPA).

Organized to promote legislation beneficial to the accounting profession and to oppose adverse legislation, the committee, comprising ten prominent CPAs from various parts of the state, was formed under the lobbying laws of the state of Pennsylvania with the knowledge of the council of the Pennsylvania Institute of CPAs.

John B. O'Hara, treasurer of PIC-CPA, points out that the profession must be prepared to assist candidates for state office who will be sympathetic to problems, and that the profession must also be represented at significant political fund-raising affairs.

"In the main," Mr. O'Hara notes, "these efforts have been conducted in the past by individual certified public accountants. We believe that we will speak as a much more powerful force if these efforts are conducted on a collective basis."

Independent groups like the political information committee are necessary, Mr. O'Hara says, because professional organizations

such as the Pennsylvania Institute avoid such activities so as not to prejudice their nonprofit status.

To effect its goals, the political information committee needs a minimum annual working fund of \$10,000 which it hopes will be

voluntarily contributed by the more than 4,000 CPAs who live and work in Pennsylvania.

Supporting the committee should not be viewed as a substitute for any support a CPA may care to give as an *individual* to local candidates for state office, according to Mr. O'Hara. The purpose of the Pennsylvania political information committee is to give the profession a more effective role in statewide matters.

AICPA retains Ezra Solomon as economic adviser

Ezra Solomon, professor of finance at the Graduate School of Business, Stanford University, Stanford, California, has accepted appointment as economic consultant to the American Institute.

As economic consultant to the Institute, Dr. Solomon will, from time to time, brief the Institute on the current economic scene and will advise the Institute of matters which he believes require attention or should be communicated to members. He may also, in time, help the Institute develop closer relations with the economists as a group.

Members of the Institute had the opportunity to hear Dr. Solomon speak on "Accounting in the Next Decade" at the annual meeting in Miami two years ago. The renowned economist has also

agreed to address the seventy-ninth AICPA meeting in Boston this October.

Dr. Solomon served as editor of the *Journal of Business* from 1953 to 1957. Among the books that he has authored or coauthored are: *Theory of Financial Management*, *The Management of Corporate Capital*, and *Metropolitan Chicago: An Economic Analysis*.

From 1961 to 1964, Dr. Solomon held the position of director of the International Center for the Advancement of Management Education, Stanford University.

He is a member of the American Economic Association and the American Finance Association, and has served as a consultant to business, government, and trade associations both in the United States and abroad.



FROM THE
PRESIDENT
ROBERT M. TRUEBLOOD

The Compleat Professional Man

A certain completeness tends to make a CPA a better practitioner of his profession, as well as a more contented person in the leisure hours of his life.

WHEN I told one of my colleagues what I intended to write about, I asked if he had any suggestions. He said, "Perhaps you should consider first the attributes of the professional man, and then the attributes of the complete man, and somehow try to put them together." And this is essentially the approach I've adopted.

It is clear that a person can be a *complete man*, in the way I mean the word here, and not be a CPA or a professional of any kind. But it is also possible that a CPA can be positively brilliant in all aspects of professional practice, and yet be quite an incomplete person, in the sense I'm using the word.

I think we all agree that a profession rests on a body of accumulated knowledge, and a literature. This knowledge is taught in formal courses of education, often in special schools. Members are usually licensed by the state to perform their work, or they are accredited by some formal organization as in the United Kingdom. They *profess* — and this is where we get the word "profession" — to be more competent to provide services in a particular field than persons outside the profession, and generally they try to bar outsiders from engaging in their work.

However, there are even more important marks of a profession. The practitioners of a profession,

as compared with people in other occupations, are motivated more by a devotion to their calling for *its own sake*, than by desire for material gain. Professionals acknowledge a responsibility to the public and a duty to use their skills in public causes. The professional man accepts a code of ethics, and he is disciplined by his peers according to established procedure. And, finally, practicing professionals are independent; they heed the standards of their profession, above even the interests of clients or employers.

Accounting has all these distinctive qualities. The individual accountant takes them seriously, and he takes them to heart. Integrity, objectivity, independence, and ethics are much more than buzzwords. They are concepts. The Compleat Professional Man thinks about these concepts — not as philosophical abstractions, but rather as gauges to be applied in work-a-day assignments:

Intellectual integrity enjoins the true professional from rationalization.

Objectivity demands a lack of bias in the decisions of every day and every job.

Independence puts the professional above the market place.

Ethics are a matter of attitude and mental demeanor, as distinguished from a series of "thou shalt not's."

There is another quality which, in my judgment, our Compleat Man must have in his professional life, but which is perhaps not often referred to in our literature. That is *creativity*. There is a tendency in all institutions to become preoccupied with things as they are, to concentrate on simply rearranging known factors, and to elaborate more and more finely on known techniques. This preoccupation ultimately leads to a sort of intellectual inbreeding at the risk of ultimate sterility.

One obvious area in which our profession could be more creative is in financial reporting by corporations. While there can be no question that business has made great progress in furnishing investors with useful information, it is equally unquestionable that opportunity for improvement still exists. It is good we can say that American investors are the best-informed stockholders in the world. But is that enough? Should we not ask whether the more than 20 million stockholders in this country are as *fully* informed, as *well* informed, and as *clearly* informed as is possible within the present state of our art?

A case of stodgy reporting

Recently, a public relations man told me that a client of his had been unhappy because the financial community did not seem to appreciate the great strides his company was making. After studying the matter and talking to some bankers and brokers, my public relations friend concluded that a main reason for lack of interest in the company was that its financial reporting was stodgy and sparse. So one day he said to the president, "What do you suppose would happen if you asked your auditors for their suggestions on what material to put

in the annual report in order to make it more satisfactory to analysts and to fund managers?"

"Well," replied the president, "after the partner in the auditing firm who takes care of us recovered from the shock which that question would bring on, I don't imagine he'd come up with anything we hadn't thought of already. After all," the president said, "we know our business — so the auditors don't tell us how to prepare our annual reports; we tell them."

My public relations friend persisted, however, and finally the president of his client company did put the question to his accounting firm. I am told that there came back a list of proposals, documented and explained, that both astounded and delighted the president. A number of the proposals have been adopted and — although I take no position as to cause and effect — I can tell you that business magazines and financial editors seem to be paying more attention to this company. Its stock is more active, and a couple of weeks ago it reached a new high.

The moral of this story lies *not* in the market performance of the stock, but in the first reaction of the president of the company — his feeling that the auditors would "pass out" in astonishment if asked for presentation suggestions of this sort, and that they probably wouldn't have any ideas anyway.

I suspect that such a viewpoint may be more prevalent in the business community than we would care to think. I suspect that a great many corporations don't ask their auditors for suggestions because they feel their independ-

ent accountants won't have any to offer. On the other side of the coin, I suspect that the noncreative accounting firm frequently may not suggest improvements — simply because it isn't asked.

A not-so-humdrum business

This story suggests one reason why many people regard accounting as a humdrum business. It is because they think of accountants as noncreative people. The public presumes that accountants only review what others have done. It doesn't see accountants, for example, in the light of architects designing fine buildings, or even as construction men doing the dangerous and exciting job of fastening girders hundreds of feet in the air. Instead, I fear, the public tends to think of auditors as the building inspectors who come around to make sure that the specifications of the construction code have been observed.

You and I know that a CPA's work is not simply that of reviewing. With accountants getting into wider areas of service, and many of them becoming management scientists, the creative aspects of a CPA's work have enlarged greatly. But in the area of a client's financial reporting — as well as in the management services — the Compleat Man will try to be creatively helpful in every way, and every day.

Leisure-time interests

Much more could be said about the Compleat Man in his professional aspect, but let's briefly consider his nonoccupational interests.

Here, I think, the late Justice Frankfurter provided excellent guidance when he said:

"No one can be a truly competent lawyer unless he is a cultivated man. . . . The best way to prepare for the law is to come to the study of the law as a well-read person. Thus alone can one

acquire the capacity to use the English language on paper and in speech and with the habits of clear thinking which only a truly liberal education can give."

Although Justice Frankfurter was speaking of lawyers, his prescription, in my opinion, applies just as well to accountants. A superior CPA is likely to be a broadly cultivated man. His range of knowledge and interests enriches his own life and opens to him many sources of enjoyment.

The Compleat Professional Man finds time to read more than books and articles in his own field. He reads the great novels, history, and biography. Nor is he a stranger to museums, concert halls, or the theater.

The interests and attitudes of the Compleat Professional Man are such that he is alive to important issues affecting his city, his country, and his world. Many CPAs already hold public office or contribute their services in public causes. But there is more that CPAs can do in this way — particularly since so many public problems today are largely economic in character. Clearly the skills of accountants could help in the analysis and solution of these problems.

Let me remind you of some of the attributes which an early philosopher assigned to what he called the "superior man," and ask you to think of this "superior man" as the Compleat Professional Man I have tried to describe:

"The *superior* man understands what is *right*; the inferior man understands what will sell.

"The *superior* man loves his *soul*; the inferior man loves his property.

"The *superior* man is always candid and at ease with himself or others; the inferior man is always worried about something."

I hope very, very much that you and I — each in a creatively professional environment — may always be at ease with others, and with ourselves.

A credo on the philosophy of professionalism, this month's column was adapted from a speech President Trueblood gave recently before the San Francisco chapter of the California Society.

Are the computer and the Code of Ethics compatible?

The article, "New book discusses ethical aspects of computer challenge . . ." (*CPA*, Dec.65, p.4), states that computer services create a novel problem as to professional ethics. It seems that this problem has been with us ever since the existence of our profession. Our clients have always been solicited by a variety of people offering the same services we can perform; e.g., book-keeper services, tax consultants, management consultants, noncertified accountants. The only exception is the attest function, which law has reserved exclusively for us.

Thus, computer services is just one more item where we are in competition with non-CPAs. The question follows: Why single out this one service as presenting a special problem to our ethics?

It seems that we are left with the following choices:

1. Permit our members to advertise all services which are also offered by non-CPAs; this would include practically all services except the attest function.

2. Stay with our present Code of Ethics, without making special allowances for computer services.

I would appreciate it very much to hear your and other members' views on my comments on this subject.

ROBERT NEUSCHULER
Homewood, Ill.

The book in question deals not only with this problem, but with many aspects of professional accounting ethics. The problems are fully discussed and analyzed, and in many cases suggestions for change are offered. In this context, the effect of computers on the ethics of the profession will be seen to be only one of many

problems which may require amendment of the Code. . . .

It seems to be generally conceded that computerized accounting services are likely to have an enormous effect on the practice of public accounting. When writeups can be performed and tax returns processed with heretofore unheard of speed and accuracy, then it would seem that the policy organs of the Institute would be remiss in their obligations to the membership if they did not at least consider the possibility of amending or reinterpreting the Code in the light of this new social and economic force.

It is, of course, possible that after the problem is considered it may be concluded that you are right and that no changes in the Code are desirable. But at least a long hard look at the question should be taken, and that is really all the article in question is recommending.

WILLIAM O. DOHERTY, *Manager
Ethics and State Legislation*

CPA

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***Executive committee
approves proposed
By-Laws revisions . . .***

The executive committee has approved a series of proposals involving an extensive revision of the disciplinary provisions of the Institute's By-Laws. The proposals provide for the automatic suspension from Institute membership of a member whose CPA certificate is suspended for disciplinary cause or who has been convicted of a felony, of failure to file his personal income tax return, or of filing a false and fraudulent return for himself or a client. The proposals also call for automatic termination of membership of a member if his CPA certificate is revoked for disciplinary causes or when his conviction becomes final. The proposals include a provision for reinstatement of members terminated for disciplinary reasons.

The proposed amendments to the By-Laws will be presented to Council when it meets in May and, with Council's approval, to the annual meeting in Boston this October for discussion. The next step would be a mail ballot to the entire membership.

***. . . and re-entry of
Institute into American
Thrift Assembly***

The executive committee also approved the re-entry of the Institute into the American Thrift Assembly, the organization primarily interested in co-ordinating the efforts of self-employed groups to improve the Keogh law (HR 10). The committee authorized an appropriation of \$5,000, to be paid in installments, with the understanding that the Institute's participation in the ATA was solely directed to encouraging improvements in the self-employed retirement law.

***Management services
subcommittee
gains satellites***

The management services technical subcommittee now has attached to it three new "satellite" committees functioning in the areas of financial management and controls, data processing, and manufacturing management.

Each committee will prepare technical material, be responsible for clearing MS technical studies and consider the technical data requirements of the general practitioner and the specialist relative to its particular area of practice.

Serving as chairmen of the committees are: Philip L. Blumenthal, Jr. (Indianapolis, Ind.), financial management, Arthur B. Toan, Jr. (New York City), data processing, and H. J. Kraig (St. Louis), manufacturing management.

***A reminder for
new members***

New members are eligible to apply for the AICPA Group Insurance and CPA Plans any time up to sixty days after the date of their admission to the Institute. If they do not apply within that period, they must wait until the Plan entry date established by the AICPAIT committee.

**Technical committees
take these actions**

Various technical committees of the Institute have been working on special projects. Here is a capsule report on their most recent actions.

- The committee on relations with the ICC has prepared a report on replacement accounting. It is presently before the committee for approval prior to its submission to appropriate senior technical committees.
- The committee on relations with the SEC met with representatives of the agency on January 11. SEC Chairman Manuel F. Cohen stated that agency Accounting Series Release 102 (installment sales) "did not represent a change in the SEC policy on accounting matters" and expressed the hope that the accounting profession "would solve some of the pending problems in a reasonable period." The committee also met with representatives of the New York Stock Exchange.
- The committee on bank accounting and auditing has prepared an exposure draft of the proposed bank audit guide and it is being distributed for comment and discussion to industry groups and other interested parties. The guide is being exposed as two documents — one dealing with accounting principles, and the other with auditing standards and procedures.
- The committee on insurance accounting and auditing prepared a final revised draft of the proposed fire and casualty audit guide which is presently before the committee for approval. The draft will then be cleared by the chairmen of the appropriate senior technical committees.

**Research study will aid
recruiting effort**

What motivates a student to select accounting as a career? or what makes him choose another profession? How much influence do parents exert on career choices? And when are career choices made? These are among the questions that should be answered by a study currently being conducted for the Institute by the Bureau of Applied Social Research of Columbia University. The answers could provide the profession with effective recruiting guidelines.

Also in this issue . . .

Twenty-seven state society executives from twenty-five states met in Princeton on January 17-18 to participate in a long-range objectives workshop. The story on page 11 gives a capsule account of what they did. . . . President Johnson's tax proposals are now being considered by the House Ways and Means Committee. The Committee is also considering certain modifications of the proposals suggested by the Institute's Federal tax committee. The President's proposals and the AICPA's recommendations appear on page 6. . . . The first IRS proclamation under its new experimental rulings program has been published. The Institute's role in proposing and drafting Revenue Procedure 66-6 is explained on page 3. . . . State society codes of professional ethics are about 70 per cent uniform. But there are some rules on which there is neither substantial agreement nor disagreement. Turn to page 8 to see how your state's code compares with the others. . . . Institute membership will soon be at 55,000. Over the years, the source of membership applications has been shifting. The chart on page 5 shows where the new members come from. . . . *The New York Times*, *Business Week* and *Dun's Review* have recently carried stories about CPAs and the profession. Read what they had to say on page 3. . . .

Business press reviews the profession and comes up with mixed notices

In a speech before the Credit Policy Committee of the American Bankers Association, the vice chairman of the First National City Bank took the accounting profession to task for its accounting and auditing standards, but he had several constructive suggestions to make. The report in *The New York Times* (Feb. 2), unfortunately, emphasized the critical comments. See the March issue of *The Journal of Accountancy* for speech excerpts and an editorial which includes the gist of a letter from John L. Carey to the editors of *The Times* (not yet published at press time).

"SEC Prods Accountants" was the title of a *Business Week* (Jan. 15) article in which SEC chairman Manuel F. Cohen was reported as having "put the profession on notice that unless it speeded up its efforts to modernize and unify the way in which businesses report their financial facts and figures, the regulatory authority would take a greater hand in doing it for them." The recent ruling on deferred taxes on installment sales was cited as a case in point. It noted, however, that the APB "is expected to swing into action with some major new changes."

The Institute's annual meeting is still attracting attention. In summarizing the papers on computers given at the meeting *Data Processor* (Jan.) reports "The CPAs are gearing up for a massive educational effort to learn and take advantage of EDP in their work. They have some knotty problems to solve, but the outlook is bright."

The second annual "guide to Management Services" was published as a supplement to *Dun's Review* (Jan.). It includes a comprehensive description of CPA services in terms of auditing,

taxes, systems and management services.

And, in the field of recruiting, youngsters were urged to seek careers in accounting in two recent articles prepared with the assistance of the Institute's public relations staff. "Exciting Careers in Accounting" is the title of a feature article in the February issue of *Hi Way*, which reaches some 100,000 teenagers. It discusses such careers in terms of "a series of progressive, constructive roles that open opportunities for full growth of personality" and concludes that "the accounting profession will assume an even greater role in America's economic picture." Syndicated feature writer

AICPA participates in new IRS rulings program

The first published pronouncement by the Revenue Service under the new IRS experimental rulings program treats a subject proposed by the Federal tax committee of the American Institute (*The CPA*, Sept. 65, p. 8).

The pronouncement, Revenue Procedure 66-6, initially drafted by the tax committee, was published in the January 24 issue of the "Internal Revenue Bulletin." It explains the procedure generally followed by IRS in approving a request for a change in an annual accounting period under certain circumstances even though the short taxable year resulting from the change has a net operating loss.

This is how the AICPA participates in the experimental program:

The Institute proposes a subject for a service pronouncement. If it is approved by IRS, the Institute drafts the pronouncement

AICPA Insurance Trust Reports Record Coverage

Increased participation by members in 1965 in the Group Insurance and CPA Plans resulted in more than \$80 million worth of new life insurance coverage.

According to the administrators and underwriters of the AICPA Insurance Trust, the life insurance figure was matched by an equal amount of new accidental death and dismemberment insurance. The total represents a new high in participation for any given year in the Trust's history.

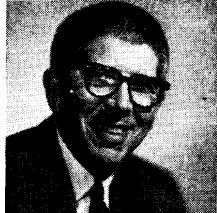
Cy Barrett (over 100 newspapers) devoted a column to the CPA and his services, in which the CPA title is described as "the label of highest competence."

ment (a Revenue Procedure or a Revenue Ruling) which is then discussed with the Service. If agreement is reached, the pronouncement is published.

In the case of Revenue Procedure 66-6, the Service responded "enthusiastically" to the draft — the first the Institute had submitted — and only minor changes were required. Both the IRS and the Institute are "very pleased" with the initial success of the program.

The Service has approved other AICPA proposed subjects for future pronouncements. These include: withholding tax on flat expense allowances, deductibility of intangible drilling costs and indemnity undertakings in certain types of reorganization transactions.

The American Bar Association and the Tax Executives Institute are also participating in the experimental rulings program.



FROM THE
PRESIDENT
ROBERT M. TRUEBLOOD

The Responsible CPA

I'm afraid that too many people feel that when a CPA signs the opinion on a corporation's financial statements, he has simply gone through the same motions of prior years and has given his present opinion routinely. Those of us who are in practice know how far this is from the truth. Professional decisions made in our field are in their way as exciting as the adventures of Doctor X, the anonymous author of a current best-seller called *Intern*.

While reading *Intern*, I was set to thinking about our own profession — how we resemble and how we differ from the other professions, and in what respects we are similar.

Any professional person's first responsibility, of course, is to the precepts of his profession. On the personal side, the doctor's principal responsibility is to his patient. Similarly, in the law, the principal relationship is between practitioner and client. That is, the lawyer's usual role, at least in matters of litigation, is one of advocacy.

The CPA, like the doctor and lawyer, has a confidential relationship with his client which must be honored scrupulously. But accountants — and I refer here largely to our attest function — in addition have a pervasive third-party responsibility. In almost everything we do, there are three parties involved. There is the issuer of financial statements, the user, and the attester: the client, the credit grantor or the investor, and the CPA. In short, the professional obligation of accountants

involves a particular element of public responsibility.

A need for communication

The fact that accountants' work relates not only to clients but to others puts upon us a special need to communicate. Simply, there must be standards of measurement, so that what is communicated can be mutually understood as between the issuer, the user, and the attester.

Occasionally, the "public responsibility" aspect of our socioeconomic relationship is misconstrued. Yes, we have a duty — to our clients and to the public — to be competent, diligent, and to exercise our very best judgment in rendering opinions. But we cannot be expected to be omniscient, nor do we hold ourselves out to be insurers. I mention this because of recent claims against CPAs for losses by persons who may or may not have been careless or imprudent themselves. The entire business of accountants' liability is one which we are eventually going to have to meet head on, bluntly and openly. But perhaps even before we undertake to explain the matter to the public, we had best begin to discuss the problem freely among ourselves.

It is not enough, however, merely to say that we recognize that our work involves a large element of public responsibility. We must fulfill that responsibility. And in order to do this, strict independence from clients is essential in the attest function. For example, no partner in an account-

ing firm, nor the wife or dependent child of any partner, may hold a single share of stock in a company whose accounts the firm audits, or be in any way financially obligated to an audited company or any of its officers.

Not only professionally stipulated "appearances of independence" are involved here, but also some fine moral points as well. In a recent U.S. Supreme Court case involving corporate conflicts, for example, it was said, "The statute is thus directed not only at dishonor, but also at conduct that tempts dishonor. This broad prescription embodies a recognition of the fact that an impairment of impartial judgment can occur in even the most well-meaning men when their personal economic interests are affected. . . . To this extent, therefore, the statute is more concerned with what might have happened in a given situation than with what actually happened."

Intellectual independence

In addition to the clear importance of economic independence, intellectual independence is imperative. The CPA advises forthrightly, and does not refrain from counsel because it might be difficult for the client to take.

Just as Doctor X, in *Intern*, declares that laymen do not know what goes into the decisions a physician makes — the sometimes agonizing mental processes the doctor undergoes in sorting through complex observations and considerations to reach a judgment — so, I believe, the public does not realize the hard decisions accountants make. And as doctors cannot discuss the details of their cases with outsiders, accountants are also under a seal of confidentiality — even, unlike the

doctor, with respect to other members of the accounting profession. But at least the result of the doctor's decision is apparent to the world — the patient gets well, or he doesn't. However, when an auditor imposes a tough decision upon his client, no one except the parties involved ever knows what took place in private.

When the financial press carries the announcement of a corporate bankruptcy or a firm's serious reverses, the accountant's role in the revelation cannot be mentioned or explained. Only the CPA involved, and his partners and his immediate staff, know of the days and months of hard decisions and objective analysis that went into the story behind the stark, journalistic announcement. (And then, to make matters worse, a disgruntled creditor or investor is apt to pounce on the theory that the accountant must have known the facts a year ago — and is therefore monetarily liable for the third party's present loss!)

Situations such as this should teach us a lesson. Remembering that unsophisticated as well as sophisticated members of the general public are unspecified users of many of our communications, we must continue in our effort to clarify and to explain the principles, practices, and procedures involved in the preparation of financial statements. Perhaps most importantly, we must encourage the APB in its current efforts to hasten consideration of outstanding technical issues — major and minor.

Finally, to all professions — whether ours, the law, medicine, or others — there applies the statement made by Francis Bacon almost three hundred and fifty years ago.

"I hold every man a debtor to his profession; from the which as men of course do seek to receive countenance and profit, so ought they of duty to endeavor themselves by way of amends to be a help and ornament thereto."

Institute membership grows each year: Where do the applications come from?

New members constitute the lifeblood of any organization. The American Institute is no exception.

Of special interest to the Institute staff's membership promotion and admissions departments are those CPAs who have not yet become members of the AICPA. They fall into two main groups: newly certified CPAs and those who have been certified for some time.

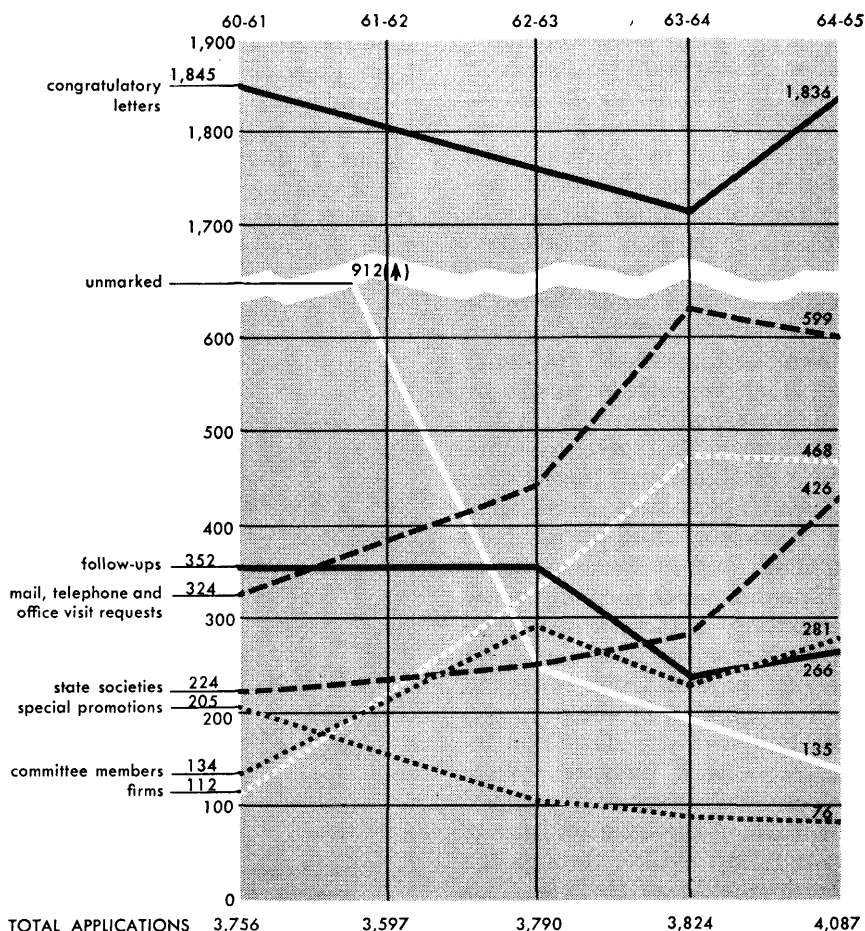
[As of August 31, 1965, there were approximately 92,150 registered CPAs in the United States. Of that number, about 54,000 were members of the Institute.]

Congratulatory letters (which include an invitation to member-

ship) from the Institute to new CPAs — historically the single greatest source of applications — last year accounted for 45 per cent of all membership requests.

Referrals by firms, by state societies and membership promotion committeemen, personal requests, follow-up letters and special promotions combined to produce the remaining 55 per cent of the 4,087 applications for membership received during the year ending August 31, 1965. A projection of the 1,418 applications received from September 1 through December 31, 1965 shows the same 45 per cent and 55 per cent breakdown for congratulatory letters and all other sources.

SOURCES OF AICPA MEMBERSHIP APPLICATIONS



Tax group urges modifications of President's tax proposals

Certain modifications in President Johnson's tax proposals were suggested recently by the AICPA committee on Federal taxation. The recommended changes deal specifically with the proposals concerning speedup of corporate income tax payments, graduated income tax withholding for individuals, and self-employment tax.

The committee's recommendations were included in a letter sent to Representative Wilbur D. Mills (D., Ark.), chairman of the House Ways and Means committee. Representative Mills' committee is currently considering the President's proposals.

Corporate tax payments

The letter noted that the tax committee had expressed its concern to the House Ways and Means Committee over the acceleration of corporate tax payments in March 1963, in response to the late President Kennedy's tax message. "At that time we pointed out the problems that would result for corporations because of the requirement that the first payment of a calendar year corporation's estimated tax must be made on April 15.

"We recommended," the letter said, "that corporate payments be made in equal thirds, with the first payment in the sixth month of the taxable year (June 15 for a calendar year corporation) and the second and third payments in the ninth and twelfth months.

"The difficulties encountered by corporations with respect to estimating taxes for the purpose of the first payment still exist and are compounded by the proposed acceleration of the scheduled increases in such payment. While we continue to favor our proposal of spreading the estimated tax in thirds from the sixth through the twelfth months of the year, our concern could be alleviated sub-

Its letter to House Ways and Means Committee chairman recommends a revised corporate estimated tax payment schedule, separate withholding table for heads of households, extension of effective date of new withholding schedule and limited incorporation of self-employment tax into estimated system.

stantially by eliminating the payment in the fourth month of the year, and simply adding that payment to the payment due in the sixth month of the year. Thus, for calendar year corporations, a payment of 24 per cent would be required on June 15, 1966, and a payment of 50 per cent would be required on June 15, 1967. The September 15 and December 15 payments would be in accordance with the President's recommendations [see chart below].

"Under our suggestion, we believe corporations would have a chance to judge more accurately the trend of the current year's business before having to make their first estimated tax payment, and, with respect to calendar year taxpayers, the same amount of estimated tax would be received

by the Treasury Department in a particular fiscal year of the Government."

Graduated withholding

The committee's letter noted that the proposed graduated income tax withholding rate schedule "will substantially increase over-withholding for taxpayers with adjusted gross incomes of \$10,000 and over," and recommended "an adjustment in the withholding rates which decreases this result without materially affecting the other advantages sought to be derived. . . ."

The letter suggested also that a separate tax table for heads of households be prepared since the "Treasury Department report [on the President's message] indicates that the table for single employees will also apply to heads of households" and would consequently subject the latter group to over-withholding.

The recommendation was qualified, however, by recognizing that "the number of taxpayers involved may not warrant the additional complication."

The tax committee suggested that the effective date of the new

AICPA Suggested Corporate Payment Schedule						
Calendar Year	Current Taxable Year				Following Year	
	April 15	June 15	Sept 15	Dec 15	Mar 15	June 15
1966	0	24	25	25	13	13
1967	0	50	25	25	0	0
1968	0	50	25	25	0	0

President's Proposed Corporate Payment Schedule						
Calendar Year	Current Taxable Year				Following Year	
	April 15	June 15	Sept 15	Dec 15	Mar 15	June 15
1966	12	12	25	25	13	13
1967	25	25	25	25	0	0
1968	25	25	25	25	0	0

Payments are expressed as a percent of calendar year tax liability and assume that a corporation estimates 100 per cent of income.

withholding schedule be extended to July 1, instead of the present effective date of May 1, 1966.

"It appears to us," the letter said, "that the objectives of the proposal would not be materially affected" and that there would be the "additional advantage of starting the new system with the beginning of a calendar quarter, thus enabling a more systematic change-over for many employers."

Self-employment tax

The committee pointed out that the Treasury's report indicated that "the incorporation of the self-employment tax into the estimated tax system would add approximately one million declarations.

"We think it undesirable," the committee said, "to require these additional declarations solely because of the self-employment tax. We would recommend, therefore, that the inclusion of such tax in the estimate system should apply only to those taxpayers who are required to file estimates because of their income tax liability.

"We recognize that this may create a slight inequity between the two groups of taxpayers; however, we believe that this inequity is less undesirable than a requirement calling for an additional one million taxpayers to file a form they have not had to file before."

Accounting research project explores problems unique to extractive industries

Discovery and extraction of mineral resources create several unique accounting problems. These problems are the subject of a research study now being undertaken by Robert E. Field, CPA, of Price Waterhouse & Co., New York City.

The study is to cover petroleum and natural gas, coal, metals, and nonmetallic minerals.

The accounting practices in use will be discussed against the background of industry operations and broad theoretical accounting concepts. An important section of the study is discussion of the extent of disclosure of accounting practices and relevant financial and operating data in annual reports to stockholders, based on a review of over 300 reports.

The common source of the problems in this field lies in the uncertainties of location and value of natural deposits of a wasting resource ordinarily produced over a relatively long period of time.

Of particular importance in this study are the distinctions made between productive and unproductive costs and the manner in

which costs are identified with discovered reserves and carried forward to future mining operations. Other unusual problems of extractive industries include a variety of contractual arrangements for operations and transfers of properties or property rights and fair disclosure of volumes or intrinsic values of unmined reserves.

Comments and suggestions from any interested person will be welcomed by Mr. Field and by Reed K. Storey, director of accounting research. Comments may be addressed to the director of accounting research, American Institute of Certified Public Accountants, 666 Fifth Avenue, New York, N.Y.

Sub-board takes action

At a meeting held in San Francisco on November 16, 1965, a sub-board of the American Institute's Trial Board considered charges that Clatus C. Meredith, 2525 Van Ness Avenue, San Francisco, California, had rendered himself liable to expulsion or suspension from membership in that the California State Board of Accountancy had suspended his CPA certificate for 120 days and had placed him on probation for three years.

The Board's suspension resulted from its finding that Mr. Meredith was guilty of gross negligence in the practice of public accounting in that he had expressed an unqualified opinion on financial statements without making an adequate audit.

The sub-board found the respondent guilty as charged and decided that he should be suspended for two years. No request for review of the decision was made, and the suspension became effective on December 16, 1965.

Extractive Industries Project Advisory Committee

Herman W. Bevis, Chairman	Price Waterhouse & Co., New York City
Gordon T. Bethune	United States Steel Corporation, Pittsburgh, Pa.
Robert W. Boyd	Weyerhaeuser Company, Tacoma, Wash.
Thomas N. Herreid	Ernst & Ernst, Pittsburgh, Pa.
R. Hersel Hughes	John W. Mecom Interests, Houston, Tex.
Wallace Macgregor	Climax Molybdenum Company, New York City
Cecil E. Munn	Cantey, Hanger, Gooch, Cravens & Scarborough, Fort Worth, Tex.
Charles W. Plum	Standard Oil Company (Ohio), Cleveland
Max S. Simpson	Socony Mobil Oil Company, Inc., New York City
Glenn A. Welsch	The University of Texas, Austin

Most state society codes are uniform, but on some rules...

The profession's rules of conduct are becoming more nearly uniform. According to a recent study by the staff serving the Institute's ethics committee, state society codes are presently about 70 per cent uniform.

As the number of "Ns" on the


chart below indicates, however, there are many rules on which there is neither substantial agreement nor substantial lack of agreement.

Here are some of the findings of the analysis:

Seven state societies (see * by

state names) have by-law provisions which automatically bring their rules into conformity with the Institute's.

The ethical principles on which agreement is nearly unanimous are: a CPA may not offer employment to an employee of

AICPA Rules of Professional Ethics													
		Preamble	Independence	Discreditable Acts	Confidential Relationship	Reports—Responsibility and Disclosure	Advertising	Solicitation	Competitive Bidding	Membership Designation	Services Performed by Employees	Application of By-laws and Code	Corporate Practice
		1.01	1.02	1.03	2.02	3.01	3.02	3.03	4.01	4.03	4.05	4.06	
Alabama	V	N	N	V	V	V	VO	N	N	N	N	N	N
Alaska	N	O	X	X	X	O	O	V	N	N	N	N	N
Arizona	X	X	X	X	X	X	X	X	X	X	X	X	X
Arkansas	X	O	X	X	X	X	O	X	X	X	X	X	X
Calif.	X	X	X	X	X	X	X	X	X	X	X	X	X
Colorado	X	X	X	X	X	X	X	X	V	X	X	X	X
Conn.	N	VX	BL	V	X	VX	X	V	X	X	X	X	VX
*Delaware	X	X	X	X	X	X	X	X	X	X	X	X	X
D.C.	X	X	X	X	X	X	O	X	X	X	X	X	X
Florida	X	X	X	X	X	X	O	X	X	X	X	X	X
Georgia	X	X	X	X	X	X	X	X	X	X	X	X	X
*Hawaii	X	X	X	X	X	X	X	X	X	X	X	X	X
Idaho	N	O	X	X	X	X	O	X	X	X	X	X	X
Illinois	X	VX	X	X	X	X	X	X	V	X	X	X	X
Indiana	N	O	BL	X	X	X	O	V	X	X	X	X	X
*Iowa	X	X	X	X	X	X	X	X	X	X	X	X	X
Kansas	X	X	X	X	X	X	X	X	X	X	X	X	X
Kentucky	X	X	X	X	X	X	X	X	X	X	X	X	X
La.	N	VO	BL	X	X	V	X	V	X	N	N	N	N
Maine	X	X	X	X	X	X	X	X	X	X	X	X	X
Maryland	X	X	X	X	X	X	O	X	X	X	X	X	X
Mass.	X	X	X	X	X	X	X	X	X	X	X	X	X
Michigan	N	O	BL	X	VX	VX	O	V	X	X	X	X	X
*Minn.	X	X	X	X	X	X	X	X	X	X	X	X	X
Miss.	X	O	X	X	X	X	O	X	X	X	X	X	X

*Rules amended automatically with Institute's rules of ethics.

V = Variant Rule

N = No Rule

BL = Same rule, but in By-Laws

O = Old Institute Rule

X = Institute Rule

VO = Variation of Old Rule

VX = Variation of Present Rule

...the issue is still in doubt

another public accountant without first informing the accountant (5.03), a CPA may not accept contingent fees (1.04), a CPA may not engage in an occupation incompatible with public accounting (4.04), a CPA may not encroach on the practice of

another (5.01), a CPA may not vouch for the accuracy of a forecast (2.04).

The study also showed that there was least agreement on the rules governing practice in another's name (4.02), the requirements of an opinion or dis-

claimer (2.03), fee sharing and commissions (3.04), and referrals (5.02).

The ideal, of course, would be for the entire profession to be governed by identical standards. However, due to a lack of simultaneous amendment machinery throughout the country, this goal may never be completely achieved. But as the study suggests, the trend is in that direction.

AICPA Rules of Professional Ethics												
	Preamble	Independence	Discreditable Acts	Confidential Relationship	Reports—Responsi- bility and Disclosure	Advertising	Solicitation	Competitive Bidding	Membership Designation	Services Performed by Employees	Application of By-laws and Code	Corporate Practice
		1.01	1.02	1.03	2.02	3.01	3.02	3.03	4.01	4.03	4.05	4.06
Missouri	X	X	X	X	X	X	X	X	X	X	X	X
Montana	N	O	N	X	X	V	O	X	X	X	V	X
Nebraska	N	O	X	X	V	VX	O	X	N	X	N	X
Nevada	X	O	BL	X	X	V	X	N	X	N	X	X
N.H.	N	VO	BL	N	V	V	V	V	N	N	N	N
N.J.	X	X	X	X	X	X	O	X	X	X	X	X
*N.M.	X	X	X	X	X	X	X	X	X	X	X	X
New York	V	X	VX	V	X	X	X	X	V	X	X	X
N.C.	N	X	BL	X	V	V	O	V	V	X	X	X
N.D.	X	X	X	X	X	X	X	X	X	X	X	X
Ohio	X	X	X	X	X	X	O	X	X	X	X	X
Oklahoma	X	V	X	X	X	X	O	V	V	X	X	X
Oregon	V	VO	X	V	X	X	X	V	X	X	X	X
Pa.	X	X	X	X	X	X	O	X	V	X	X	X
R.I.	V	X	BL	V	V	X	O	X	N	N	N	N
S.C.	X	X	X	X	X	X	O	VX	X	X	X	X
*S.D.	X	X	X	X	X	X	X	X	X	X	X	X
Tenn.	X	X	X	X	X	X	X	X	X	X	X	X
Texas	X	X	X	X	X	X	X	V	X	X	V	X
Utah	N	O	BL	V	VX	V	O	V	N	N	N	X
Vermont	N	O	BL	V	X	V	X	V	V	X	N	VX
Virginia	N	X	X	X	X	X	VO	V	X	X	X	N
Wash.	X	X	X	V	X	X	X	X	V	X	X	X
Wis.	X	V	X	X	X	X	X	X	X	X	X	N
*W. Va.	X	X	X	X	X	X	X	X	X	X	X	X
Wyoming	X	X	X	X	X	X	X	X	X	X	X	X
P.R.	N	X	X	X	X	X	X	X	X	X	X	X
V.I.	N	VO	BL	X	X	V	O	V	X	N	X	X

The State Society Executives

The staff executives of the state societies of CPAs have increased steadily in number and effectiveness in the past fifteen years. Forty-three of the state societies now have full-time or part-time staff help, as contrasted with only about nineteen in 1950. The larger societies have staffs ranging from half a dozen to twenty people in all.

In the same period the number of the Institute's full-time employees has grown from 90 to 200.

This increase in the staff resources of the professional societies reflects an enormous expansion in their activities. They now work at professional development, accounting research, auditing procedures, taxation, management services, education, public relations, ethics and discipline, publications, the impact of computers, legislation, the uniform CPA examination, the management of an accounting practice, relations with lawyers, bankers, government agencies, financial executives and others, international affairs and numerous direct services to members. The specific projects and activities in these areas easily run into the hundreds.

The initiative in some of these efforts naturally rests with the state societies, in others with the Institute. In most, if not all, of the programs the best results are obtained by the two working together.

Programs of this magnitude cannot be sustained solely by volunteer officers and committee members who must conduct their own professional practices and whose terms of office are short. All business and professional organizations of any size have accepted the necessity of having continuing staff for effective management—and the CPA profession has clearly accepted it too.

This acceptance puts a heavy responsibility on the staff members. They have to demonstrate that the organizations accomplish more with paid staff than without it. This means more than efficient administration alone. An organization can run smoothly and yet achieve little. The staff, in my opinion, has a duty to help members to identify professional problem areas and devise methods of solving them—and then see to it that action is taken to bring about solutions.

If they are to discharge this duty, staff members must be both competent and well informed.

To improve the information, communication and co-ordination processes, the Institute initiated in 1950 a series of periodic meetings of state society executives and Institute staff members.

The latest of these sessions—a two-day seminar at Princeton on January 17 and 18—is described on page 11 in this CPA. It was a most rewarding and encouraging experience. Some twenty-seven intelligent and dedicated individuals, who hold key positions in the professional societies, spent long hours in intensive discussion of vitally important topics—education, professional development, recruiting, public relations, and co-ordination of state society and Institute activities. Knowl-

edge, experience and points of view were freely exchanged in an atmosphere of full co-operation. The results cannot fail to be beneficial to their organizations.

Some members assume that society staffs should confine their activities to clerical or administrative functions. Others sometimes indicate concern lest the staffs dominate policies and programs. Neither attitude is sound. Staff should be encouraged to express opinions on all issues and to participate in all activities to the extent possible. The volunteer officers and committees can always exercise their power to make the final decisions. They can accept or reject staff advice. And the checks and supervision to which the staff is subject leave little possibility of staff domination. Indeed, so effective are the restraints exercised by volunteer officers, boards of directors and committees that excessive caution on the part of staff is usually more of a danger than any effort to dominate anything. In fact, staff has no power but the powers of persuasion.

The whole point of this discussion is that in their staff executives the state societies have an accumulation of knowledge and experience, a sense of continuity, and a skill in facilitating group action of which full advantage should be taken. The executives should be given ever greater responsibilities as they demonstrate their capacity to discharge them. They should be urged to express their opinions for whatever they are worth, and whether they are accepted or not. They should be reassured at every opportunity of the members' confidence in them.

Under these conditions, the state executives can make important contributions to the growth and progress of the profession—as, indeed, many of them have already done.

State society executive LRO meeting explores the future of the profession

From Alabama, California and twenty-three other states they came to discuss the profession: where it is now and where it is headed. This is what they talked about.

When twenty-seven state society executives from twenty-five states get together to discuss the future of the accounting profession, one thing is almost certain: there will be twenty-seven different views presented on how to achieve the same goal.

Take the long-range planning seminar held at Princeton, N.J., on January 17-18. When it came to discussing the structure of the Institute and the state societies, and how these organizations could best handle the problems of today as well as of tomorrow, the result was twenty-seven variations on the same theme.

But that was the way it was meant to be. The state society executives had come to Princeton to exchange views on the implications of John L. Carey's book, *The CPA Plans for the Future*.

The first day was devoted to accounting education, professional development, recruiting for the profession and public relations. The entire second day was devoted to a discussion of the role of the state societies in the organized structure of the profession.

What follows is a capsule account of a portion of the second morning's proceedings.

The goal of the organization

What is the goal of the professional organization? How can the profession meet the problems of today within its existing organizational framework? What changes, if any, should be made in the framework to cope with the problems of the next twenty years?

"The goal of a professional or-

ganization," one executive said, "is not the perpetuation and the advancement of the society as an institution in and of itself—the goal of an organization is the continuation and advancement of the individual members of the organization."

Another executive phrased it this way: "The goal of a professional society is to enhance the competence of its members, to improve the services performed by all CPAs, and to foster a broader public awareness of the CPA's role in the society."

The structure of the profession

One way the structure of the accounting profession might be changed, it was suggested, is to organize an interprofessional council "to unite or merge all accounting groups into one body—a federation—and call it, for example, 'The Accountants of America.'" This council would include, for example, representatives of the American Accounting Association, the Financial Executives Institute, the Institute of Internal Auditors, the Federal Government Accountants Association, the National Association of Accountants and the AICPA.

"The present structure of the AICPA could be made stronger," another state executive suggested, "by electing first, second and third vice presidents and advancing them in position and responsibility each year; by creating regional organizations among the states; by establishing regional offices and staffing them; and by providing for regional presidents

to be automatically members of the AICPA executive committee.

The discussion turned from organization to the needs of individual members.

"Rather than strengthen or create one huge organization, I think we want to create, essentially, a policy-making body which then gets back down to the needs of members. The only way you can get to the members is on the local level."

Another executive proffered this:

"... We do recognize that the structure, while it may be satisfactory at the present time, will very definitely have to undergo certain changes. What those changes are, precisely, we haven't decided."

And that led to this query:

"What needs of the future cannot be met with the present organization?"

"Let's look at the next ten years and try to determine what the structure of the profession is going to be. Is the trend going toward larger and larger firms, away from the small practitioner? Or is the trend going to be toward larger local firms, through mergers?"

Another thought was this:

Should the Institute be restructured on the basis of specialties rather than geography to meet better the needs of the members?

Answers of "no," "yes," and "a combination of both," were offered.

"... forty different specialties"

One state society executive said that that type of reorganization would have to wait until the specialties were better defined. "Management services splits off into about forty different specialties," he said.

"I think there will be accreditation for specialties and, at that time, I think there will be a need for specialist groups to meet and talk about their own problems. But I would hope," he continued, "that it would not be at the expense of the general professional

structure because there is the need for professional persons to be generalists first, and then specialists. Beyond that, I think that there would be a real danger if we break down our structure too finely."

His statement led to these questions:

"When are we going to consider what constitutes a certified public accountant? When will we get a standardized form of acceptance of how these individuals come into the profession?"

For two days, the state society executives exchanged dialogue in this manner. And, to repeat what John L. Carey has already said in his column on page 10, "the results cannot fail to be beneficial."

In addition to American Institute president Robert M. Trueblood, the following AICPA staff members also participated in the two-day conference: John L. Carey, executive director; John Lawler, managing director; and David H. Lanman, division director, professional relations.

PD Courses: April-June 1966

Introduction to ADP

Birmingham, Ala., April 25-26
Rochester, N.Y., May 19-20
Palo Alto, Cal., May 23-24
Louisville, Ky., May 26-27
Los Angeles, May 26-27
New York City, June 9-10
New Orleans, June 23-24

Filings With the SEC

Pittsburgh, Pa., May 5-6
Dallas, May 23-24
Denver, Colo., June 9-10
Los Angeles, June 27-28

How to Manage

Corpus Christi, Tex., May 16-17
Hot Springs, Ark., May 26-27

Developing a Management Services Practice

Jefferson City, Mo., May 19-20
Phoenix, Ariz., June 16-17

Procedural Problems in Tax Practice

Philadelphia, May 12-13
Oklahoma City, Okla., May 16-17

Effective Communications

Washington, D.C., May 9-10
Houston, May 19-20
New York City, June 23-24
East Lansing, Mich., June 27-28

Tax Lecture Series

Columbus, Ohio, June 2-3
Washington, D.C., June 30-July 1

How to Increase Staff Efficiency

Cherry Hill, N.J., May 5-6

Improving the Administration of Your Practice

Atlanta, Ga., May 16-17
Chicago, June 27-28

Management Services Lecture Series

New York City, May 19-20

In-Charge Training Program

San Dimas, Cal., April 25-29
Minneapolis, Minn., May 2-6
Athens, Ga., May 23-27
Columbus, Ohio, June 6-10
Philadelphia, June 6-10
Denver, Colo., June 13-17

CPA

MARCH 1966

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THE APRIL 1966



PLEASE RETURN TO LIBRARY

Major issues before Council

By the time this issue of *The CPA* reaches you, spring Council will be just over one month off — May 2-5 to be exact. When it meets in Boca Raton, Florida, the Institute's governing body will act on issues which affect you as members of the AICPA and the accounting profession. Your voice can be heard in Boca Raton if you study the issues on page 4 which are up for consideration and then let your Council members know how you want them to vote.

Industry comments on proposed APB Opinion No. 7

One of the reasons for creating the position of administrative director of the Accounting Principles Board was to develop more extensive co-operation between the APB and various groups in industry, government and education whose views are sought before opinions are issued. Proposed Opinion No. 7, "Accounting for Leases in Financial Statements of Lessors," has been out for exposure to such interested groups. A sampling of comments from industry appears on page 5.

Hearings on newly revised foreign investors tax bill

The House Ways and Means Committee is conducting hearings on HR 13103, a revised version of the Foreign Investors Tax Act (HR 11297). In a report of comments and recommendations on HR 11297, the Institute's tax committee objected to several of the bill's provisions and requested hearings on the legislation. The new bill is substantially in accord with the AICPA recommendations.

Computer studies on way to members

Computer research study No. 3, "Applications of Computer Programs to the Practice of Accounting," is now on its way to all members in public practice and education. The final two studies, "Relationship Among CPAs, Banks and Service Bureaus" and "Computing Machinery: Characteristics and Software Trends," will be mailed in mid-April. (All other members may receive a free copy by writing to the Institute.) The studies were prepared by the System Development Corporation as part of the Institute's computer research and education program.

Also in this issue . . .

"Practicing accountants have an extensive and probably increasing degree of exposure to claims from clients and others arising from their professional services," AICPA President Trueblood writes on page 2. "The damage from legal liability to an accountant's purse can be severe. The damage to his reputation can be irreparable. The emotional cost of involvement can be deadly." The President's column this month also includes a checklist of ways accountants can minimize the risk of liability to clients and others. . . . What do members think of the Institute's computer research and education project? Turn to page 7 for some of their comments. . . . The Ninth International Congress of Accountants is scheduled to be held in Paris, France, in the fall of 1967. The story on page 7 provides you with some advance data on the meeting. . . . IRS urged to modify extension policy based on practitioners' workload (p. 3). . . .



FROM THE
PRESIDENT
ROBERT M. TRUEBLOOD

Legal Liability

A socio-economic development is emerging which involves increasing costs to business. More and more one reads of staggering claims and large judgments and settlements in cases of product liability, personal injury, and other kinds of damage suits. Recoupment of losses of all sorts by recourse to the courts is becoming a way of life.

Practicing accountants have an extensive and probably increasing degree of exposure to claims from clients and others arising from their professional services. The damage from legal liability to an accountant's purse can be severe. The damage to his reputation can be irreparable. The emotional cost of involvement can be deadly.

The professional status of accountants imposes on them an obligation to exercise the care and competence reasonably expected of persons in their profession and a duty to adhere to accepted professional standards. A failure to do so is negligence.

The American Institute has formally defined professional standards of qualification such as education, experience, proficiency, judgment and independence. The Institute, through the efforts of its committee on accountant's legal liability (under the chairmanship of Ralph Kent), is also working to advise members on what they should know about liability. The committee, for example, is evaluating the various sources and limits of insurance coverage, the nature and sources of claims, and the amount of liability insurance CPA firms should carry. Eventually the committee hopes to develop a communication, presenting its recommendations, to all firms represented in the Institute.

The profession has specified certain standards and procedures to be used in the performance of and reporting upon audits. These professional statements of generally accepted auditing standards and procedures will be given great, and perhaps decisive, weight in a court adjudicating a question of liability.

So far, the courts have generally held that accountants deemed negligent are liable only to their clients — not to third parties (except under special statutes such as the Securities Act of 1933).

► The courts have concluded on pragmatic grounds that the hazards of public accounting practice would be too extreme if the commission of ordinary negligence (such as a thoughtless slip or blunder) were to "... expose accountants to a liability in an indeterminate amount for an indeterminate time to an indeterminate class."

► The courts have said that auditors should not be liable for negligence to creditors and investors if their report "... was primarily for the benefit of the [client] ... for use in the development of the business, and only incidentally or collaterally for the use of those to whom [the client] and his associates might exhibit it thereafter."

These decisions frame what is called the primary benefit rule. The rule is based on the thought that a company ordinarily needs audited financial statements for many purposes — for management guidance, taxes, equity investors, lenders, suppliers, customers — no single purpose alone being a decisive reason for obtaining audited statements.

The primary benefit rule has

been an important shield to auditors from liability to persons other than their clients for ordinary negligence.

Nonetheless, it would be foolhardy to conclude from the existing decisions that there can be no such thing as an audit or a report for the primary benefit of someone other than a client. It would be especially foolhardy to rely on this conclusion if the report is of a specialized nature — one which is likely to be of interest, or is delivered only, to a single person or category of persons (such as a lender) — rather than to all the persons interested in the financial affairs of a client.

Consider these examples: an opinion of an accountant, delivered directly or indirectly to a lender, to the effect that in his annual audit he observed no breaches in the restrictions of a loan agreement; an accountant's comfort letter addressed both to the client and the client's underwriters and delivered in fulfillment of a condition precedent to the obligation of the underwriters to purchase the securities; special receivables audits required by lenders on collateralized debt.

It still remains to be established by the courts whether any of these or other special audits or reports are considered to be for the primary benefit of persons other than the client.

The fraud of deceit

Even though an auditor may not be liable to persons other than his client for ordinary negligence, he may be exposed to liability to others if the deficiencies or lapses in his professional work are of such magnitude that the issuance of his report constitutes the fraud of deceit.

It is natural enough for an accountant to be incredulous at the thought that he could be guilty of

fraud in the absence of intentional dishonesty on his part. But evidence of negligence, and especially of gross negligence, on the part of the auditor will be considered in deciding whether or not the facts support an inference that he committed deceit.

Gross negligence is defined legally as an extreme, flagrant, or reckless departure from standards of due care and competence in performing or reporting on professional engagements — as contrasted with the thoughtless slip, honest blunder, or error of judgment which amounts to ordinary negligence. Gross negligence does not require *intentional* misstatement or concealment.

An auditor who commits deceit can be held liable to persons whom he should have reason to expect to act or to refrain from acting in reliance upon his misrepresentations — for loss suffered by them in any of the types of transactions in which he might expect their conduct to be influenced by his misrepresentations. Such a liability could conceivably extend to those among the potentially large number of present and prospective security holders, suppliers, customers, and others whom the auditor should have reason to expect to act or to forbear to act in reliance upon his report. It is legally a question of fact as to which of those persons the auditor would have a duty, this determination varying according to the differing circumstances of different cases. It is not possible to predict confidently how any specified question of fact would be decided by various triers-of-fact except that the decisions would undoubtedly not be consistent.

An allegation against an accountant for negligence or for deceit would usually arise in connection with his audit report. The standard audit report contains or implies the following representations: (1) that the auditor is a competent expert in auditing; (2)

that he has examined the financial statements in accordance with generally accepted auditing standards and by such audit procedures as in his reasonable judgment were necessary in the circumstances; and (3) that in his opinion the financial statements present fairly the financial position and results of operations.

If the evidence should reveal significant gaps or omissions in the audit program or serious incompetence or carelessness of staff work or supervision, such facts *might* support an allegation that the statements of what was done were deceptive misrepresentations and *might* justify a trier-of-fact in so deciding.

If the evidence should suggest that the audit deficiencies or accounting lapses were so extensive that the auditor may have lacked reasonable ground for believing in the propriety of his opinion, such circumstances *might* support an allegation that the auditor's opinion was deceptive misrepresentation — and *might*

justify the trier-of-fact in so deciding.

As American business grows larger, the potential losses from business failure become greater for both creditors and investors. Financial distress and failure in business are increasingly accompanied by searches for scapegoats. Auditors may become one of the searchers' targets.

The surest and the most direct way for accountants to minimize the risk of liability to clients and others is to:

► Emphasize vigilance in the performance of all phases of their work;

► Assure that the work performed by their staffs is of the highest quality at all levels;

► Assure that the supervision and review of staff work is adequate to detect deficiencies, and that technical competence is complemented with mature business judgment;

► Discuss openly with their peers the risks involved in the pursuit of their calling.

IRS urged to modify extension policy based on practitioners' workload

The Institute's tax committee has asked IRS Commissioner Cohen to modify the Service's policy regarding requests for extensions of time to file individual income tax returns. The committee felt modifications were needed because of:

- lack of uniformity in evaluation of the practitioner's workload as an appropriate reason for granting extensions

- inconsistencies in the consideration of extension requests on the part of the Service personnel

It noted that increased time is required for preparing personal returns as a result of added complexity in the tax laws and the expanded use of ADP by the Service.

The committee observed that Harold R. All, Regional Commissioner in the North Atlantic Re-

gion, had issued a bulletin regarding extensions for individuals which appeared to be more liberal than the rules of Announcement 63-113 regarding the practitioner's workload.

The committee recommended:

1. When a CPA submits a request for extension of time to file an individual tax return for his client based solely on the practitioner's workload, the request should be granted.

2. Alternatively, Mr. All's more liberal approach regarding the practitioner's workload should be adopted as the policy of the National Office.

3. Where extensions are denied, the present Service practice of granting ten days in which to file the return, beginning on the date the denial letter is issued, should be extended to twenty days.

By-Laws revisions and APB resolution top Council agenda

When Council meets in Boca Raton, Florida, May 2-5, it will consider several issues of major importance to the membership and to the profession. Two of the top items on Council's agenda are proposed revisions in the Institute's By-Laws and the adoption of a resolution which would approve, with certain modifications, the report of the special committee on opinions of the APB.

A summary of the proposed revisions and the resolution are reprinted below. Study them and let your Council members know how you want them to vote.

The proposed revisions would provide for automatic suspension from the Institute of a member whose CPA certificate has been suspended for disciplinary cause, or who has been convicted of a felony, of failing to file his personal income tax return, or of filing a false and fraudulent income tax return for himself or a client (crimes thought to be particularly serious when committed by a CPA); and for automatic termination of the membership of a member if his CPA certificate is revoked for disciplinary causes or if his conviction of any of the above crimes becomes final through loss of an appeal or expiration of the time in which an appeal may be taken.

In addition, provision is also made for:

1. Reinstatement of membership when the judgment of conviction or order of a governmental authority, on which the automatic termination or suspension is based, is reversed or otherwise set aside.

2. Reinstatement of membership at the discretion of the Trial Board when, after expulsion or suspension by the Trial Board or sub-board, the judgment of conviction, the order or finding of the court, or order of the governmental authority on which such expulsion or suspension was

AICPA governing body will consider amendments to facilitate disciplinary procedures. It will also be asked to act on the recommendations in the report of the special committee on opinions of the Accounting Principles Board.

based, has been reversed or otherwise set aside.

3. Reinstatement at the discretion of the Trial Board, after a lapse of three years, of a member who has been expelled or whose resignation has been accepted by the Trial Board or a sub-board or whose membership has been automatically terminated. The three-year waiting period does not apply to cases falling within one and two above.

4. Other amendments largely necessitated by the two basic changes, and intended to clarify certain ambiguous sections in the present By-Laws.

While the By-Laws presently provide that a member *shall* be expelled if he is found to have been convicted of a felony or other crime or misdemeanor involving moral turpitude, a trial must be held before the expulsion can be ordered. Since the penalty in such cases is mandatory, the Trial Board and ethics committee thought that a more efficient way of handling them should be devised. Also, a member who has had his CPA certificate suspended or revoked for disciplinary reasons may, under the existing By-Laws, continue to represent himself as an Institute member until the Trial Board hearing is held. The delay in processing such cases is regarded as undesirable.

Similar proposals were reviewed by the executive committee a year ago and were referred back to the ethics committee and Trial Board with the suggestion that the automatic features not apply when it is thought that the suspension or revocation of a member's CPA certificate was unwarranted.

The new proposals set up machinery to give effect to this recommendation.

When the original proposals were sent back by the executive committee to the ethics committee and the Trial Board, a subcommittee of the Trial Board was appointed to review the matter in depth. The present proposals, which are largely the work of that subcommittee, have also been reviewed by Institute counsel.

A further amendment to the disciplinary clauses of the By-Laws which was not considered by the Trial Board, but which has been approved by the executive and ethics committees, would require a member to co-operate with the ethics committee in its investigations of all violations of the By-Laws or Code of Professional Ethics. Accordingly, such member would be subject to expulsion or suspension if he fails to respond within thirty days to communications requesting information as to facts pertaining to whether the member is subject to disciplinary action. This proposal is intended to apply to the member who ignores communications from the ethics committee. It would not apply to the member who, acting on advice of counsel, declines to give requested information because of possible danger of infringing his rights in court.

The By-Laws committee will propose these amendments to Council. All have already been approved by the committee on professional ethics and executive committee (*The CPA*, March 66, p.1). If Council approves the amendments when it meets next month, they will be presented to the annual meeting in Boston for discussion. A mail ballot to the entire membership would then follow.

Council will also review a report of the executive committee covering several significant de-

velopments in the field of accounting principles which have occurred in recent months.

Then, Council will be asked to adopt the following resolution:

"RESOLVED — That the Council of the American Institute of Certified Public Accountants approves all of the recommendations set forth in the report of the special committee on opinions of the Accounting Principles Board — a comprehensive account of major professional considerations — presented to the spring meeting of Council on May 3-6, 1965 [*The CPA*, June 65, pp.3-4], with the following modifications:

"That the recommendation (No. 8) on exclusive continuing reliance on the profession itself to finance the accounting research program be amended to permit the acceptance of contributions from educational foundations or other sources outside of the profession if, in the view of the executive committee, such support would not in any way jeopardize the integrity of the program; and

"That consideration of the recommendation (No. 7), that in 1968 Council should approve an amendment to the Code of Professional Ethics to cover infractions of the Council's decision requiring disclosure of departures from Opinions of the Accounting Principles Board, be deferred until the time suggested in the report."

AICPA Computer Consultant

Professor Gordon Davis, who is head of the Computer Center at the University of Minnesota, has accepted appointment as consultant to the Institute on computer problems.

A CPA and a member of the Institute, Professor Davis will work with the AICPA on a part-time basis until June, while he finishes the current semester at the University. He will then work full-time for a year with the Institute on research and educational problems involving computers.

Industry comments on draft of proposed Opinion No. 7 on accounting for lessors

Proposed APB Opinion No. 7, "Accounting for Leases in Financial Statements of Lessors," has been sent out for exposure to industry committees, government agencies, state societies and other interested groups.

The proposed Opinion, the full text of which appeared in the February 1966 *Journal of Accountancy* (p.44), sets forth the Board's views as to the two predominant methods — "financing" and "operating" — of allocating rental revenue and expenses by lessors.

Here is a sampling of some of the comments received on the proposed Opinion.

From a major utility company:
"... we do have some reservations about the proposed Opinion. The Institute's formal recommendation of the "Financing Method" — under certain circumstances — could be an invitation to the Internal Revenue Service to apply similar principles for tax depreciation purposes. If this occurred, the affected lessors would suffer an acceleration of tax payments as compared with straight-line or one of the accelerated tax depreciation methods.

"In addition, the description of the 'Financing Method' does not make clear whether the '... level rate of return' referred to ... is to be before or after income taxes. I assume it means 'after taxes' if the purpose of the bulletin is to be accomplished. If the property involved in a rental transaction is subject to accelerated tax depreciation, the objective would be frustrated if the bulletin were interpreted to mean a level rate of return before taxes."

From a major computer manufacturer: "I think that this draft is generally satisfactory with the

important exception that it does not deal with the question of proper treatment of the lease receivable by those companies employing the operating method. That is to say, a company such as ours has contracted receivables in the form of a number of months promised (contracted) rental payments which nowhere appear on our balance sheet as an asset. In fact, under existing Opinions the display of such an asset appears to be prohibited by generally accepted principles. I feel that the subject Opinion should deal with this problem and should establish a basis for recording and displaying on the financial statement these promised rental payments as an amount receivable, the offset being a deferred income account to be carried on the credit side of the balance sheet. The receivable, in my view, would constitute an asset although the deferred income account would not represent a liability."

From a major communications company: "The exposure draft seems to be a reasonable approach to the accounting and reporting by lessors. ...

"One point I cannot understand is why the guidelines for recording financing leases by the lessor would not be applicable to the lessee. ...

"I would think that it would make more sense to businessmen if Opinions No. 5 and [proposed Opinion] No. 7 were combined in one Opinion and the same criteria applied to both sides of lease transactions. The APB in establishing standards of accounting, if it is to achieve the necessary respect to have any real influence, must present a clear position with logical reasoning and not leave gaps that are confusing and likely to be misunderstood."

CPAs and Information Systems

"INFORMATION SYSTEMS" is a phrase found more and more often in management literature. "Integrated" and "total" information systems are frequently mentioned. To many CPAs these terms are unfamiliar, and may seem to have no bearing on accounting practice—at least that of the local firm with small clients.

Actually, a double-entry bookkeeping system is an information system, with limitations.

Then what is new? Developments in management sciences and the advent of the computer open the possibility of including in one information system all the data—financial, physical and even behavioral—that management needs to plan, control and decide.

For example, further utilization of source documents used to record financial data related to payroll reporting could result in additional reports such as average hours to produce a unit of output, absentee reports and other labor reports.

While the costs involved in carrying inventory are not capitalized in the financial records, such costs should at least be highlighted for inventory control and production planning purposes.

An effective decision-making tool used for instance by heating-fuel distributors is such nonfinancial data as weather days for forecasting inventory needs and sales potential.

Such information can be assembled without a computer, of course, but not economically, and usually not fast enough to be of maximum usefulness.

Accounting traditionally has dealt with resources, claims, revenues, expenses and costs in terms of dollars. But the accounting process—marshalling, arranging and interpreting data in a meaningful manner—can surely be applied as well to the new techniques used to produce non-financial information needed for decision-making. Indeed, it is being so applied on an increasing scale.

If both financial and nonfinancial data which management needs are housed in a computer which can be programmed to make comparisons, develop ratios and perform various analytical functions, who is going to design and monitor the systems?

The accounting profession has an opportunity to get there first with the most, but there are many other groups which are working hard at the problem, and it is not inconceivable that in time some type of information specialists will emerge who will take over the processing of financial data along with all the rest.

A growing problem for management in this new world of information made possible by the computer is the proliferation of so much data that it becomes almost incomprehensible, and often indigestible. Among all information specialists, CPAs are the most specifically trained to select what is crucial for decision-making.

But if they are to find their proper place in this new era of manage-

ment information, CPAs must keep informed of the research that is being done and the concepts that are being developed, in business, in the universities, and other research organizations, in the management-science and information-system areas. These are really extensions of the accounting function, although they borrow from mathematics and other disciplines to do things which could not readily be done before computers were available.

Providing up-to-date reports in this field is one of the objectives of the *Management Services* magazine which the Institute began publishing two years ago.

AICPA representatives attend ABA tax meeting

The midyear meeting of the section of taxation, American Bar Association, was held in Mexico City, Mexico, on February 11-14, and was attended by Donald T. Burns, general chairman of the Institute's tax committee and AICPA staff man Gilbert Simonetti, Jr., assistant director, technical services. They report that:

- A section committee will begin working on a complete overhaul of Subchapter S.

- A detailed report has been developed by a section committee regarding the nature and extent of continuing education available for lawyers in the tax field. The committee is now considering the desirability of preparing tax publications for section members.

- A new committee on legislative recommendations was formed recently to review regulations to determine whether they are sufficiently informative, objective or arbitrary, complete or incomplete. The committee will also review the regulations to determine whether the Revenue Service is in effect legislating by regulation.

Members respond to Mr. Carey's request to express views on computer project

"Write us your views on the subject," John L. Carey said in his February CPA column, "CPA and Computer." And quite a few members did. Here is what some of them had to say.

"In today's world," a member from Chicago writes, "information is power and our profession's growth is in large measure due to the fact that we have been in the information stream. . . . By the same token, I think accountants could lose large segments of their practice if another group or groups come into possession of the information on which business depends."

"The difficulties and expense of getting into the computer business are such," the Chicagoan continues, "that I advocate the formation of an association of CPA firms across the nation which will jointly support, and in turn be supported by, a central organization to which will be delegated those duties and responsibilities where economies and advantages will result from centralization."

Another member, from Wilmington, Delaware, has this to say:

"I . . . find that every practitioner here in the city [is] greatly interested in the computer and its uses but I still believe that there is a great deal of floundering with regard to how it can be used for other than the mundane purposes of accounts receivable, payrolls, accounts payable. That in other words the full system from these right straight through to the general ledger is apparently not attracting the attention that I felt would be the case. In my opinion, the total systems phases are the coming thing and the thing that the certified public accountant would be best equipped to provide and recognize."

A practitioner in Pasadena, California, suggests "the formation of a nationwide computer service bureau to be run by the AICPA exclusively for its members."

"Those members," the CPA writes, "using the computer service would share in the profits—similar to a co-operative—based on the service fees charged to those members. It is assumed that the American Institute service would charge fees comparable to those of other service bureaus."

1967 International Congress of Accountants will explore "The New Horizons of Accounting"

If you are planning to attend the Ninth International Congress of Accountants in Paris, France, in the fall of 1967, keep a sharp eye on your mail. You will soon be sent an application form which must be returned to the Institute.

The Congress will extend through a seven-day period, September 6-12. Mornings and afternoons will be devoted to technical sessions exploring various phases of "The New Horizons of Accounting," which is the theme of the Congress. The subjects will be presented by selected international reporters at plenary sessions and by selected national reporters at small discussion sessions. The two official languages are French and English. Simultaneous translation equipment will be used.

During the evenings, delegates and observers will have a variety of scheduled entertainments from which to choose. Four guided tours are planned for the September 9-10 weekend: the Loire chateaux, the French Riviera, the Champagne area, and a trip to Vichy, a celebrated thermal resort.

"We have attempted to work with outside bureaus in servicing our clients but in most cases find that we end up giving business to the service bureau we had before."

And from a member in Orlando, Florida, come these thoughts:

- A CPA needs a conceptual knowledge of the components of a computer and how they function.

- Most important of all, members should have made available to them a periodic "reporter" to keep them advised on the latest equipment, its cost, capabilities and limitations. With the aid of such a service, members would be able to advise clients on computer purchases.

The number of official delegates allocated to the United States is limited, and the number available to the American Institute is still smaller. But no limitation has been placed, as yet, on the number of observers and guests who may attend.

Present plans call for the distribution of the official Congress registration form in the fall of 1966, with the requirement that it be returned by January 1, 1967. The organizers of the Congress will probably request submission of the registration fee with the form. Registrations may be made after January 1, 1967, but will be honored only to the extent that there are available places.

Official hotel forms will be sent to potential registrants in the fall of 1966. However, the organizers recommend making advance registrations direct to Paris hotels.

The organizing committee presently estimates total attendance at 4,000. If you want to be among them, be sure to let the Institute know after you receive the application form.

Computer book due soon

Accounting and the Computer is a book designed to provide an introduction and orientation for accounting practitioners who recognize the potential impact of computers on their clients' accounting and their own practices. It will be published soon by the American Institute.

The book brings together in one volume selected articles which have been published in *The Journal of Accountancy* and *Management Services*. It also includes papers presented at the Institute's recent annual meeting in Dallas, and a glossary of computer terms prepared by one of the national accounting firms.

The book represents one effort of the Institute's research and education program on present and future effects of computers on accounting and public accounting practice. The program was approved by the executive committee and by Council in the spring of 1965.

PD Courses: July-August 1966

An Introduction to ADP

Milwaukee, Wis., August 11-12
Denver, Colo., August 15-16
Pittsburgh, Pa., August 29-30

Developing a Management Services Practice

Richmond, Va., August 8-9
Minneapolis, Minn., August 11-12

Effective Communication

Seattle, Wash., July 14-15
Norman, Okla., July 28-29

How to Increase Staff Efficiency

Reno, Nev., July 11-12
Indianapolis, Ind., July 25-26

How to Manage

Philadelphia, July 18-19
Detroit, Mich., August 1-2

Improving the Administration of Your Practice

Baltimore, July 7-8
Memphis, Tenn., July 21-22

Procedural Problems in Tax Practice

Charlotte, N.C., July 28-29
Wallingford, Conn., August 22-23

Auditing of EDP Installations

New York, July 21-22
Washington, D.C., August 18-19

Filings With the SEC

Columbus, Ohio, July 18-19
Portland, Ore., July 25-26
Chicago, August 8-9

Tax Lecture Series

Denver, Colo., July 18-19
Las Vegas, Nev., August 29-30

Management Services Lecture Series

Dallas, Tex., July 14-15
San Francisco, July 28-29
Chicago, August 4-5

In-Charge Training Program

Chicago, July 25-29

CPA

APRIL 1966

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THE MAY 1966



Council in session

About three hundred elected members of Council, state society presidents or representatives, committee chairmen, APB and Trial Board members are expected at the Council meeting in Boca Raton, Florida, May 2-5. There will also be at least two hundred wives accompanying their husbands.

This year, the major issues before Council are:

- amendments to the By-Laws to facilitate disciplinary procedures
- approval of recommendations in the report of the special committee on opinions of the APB (*The CPA*, April 66, pp.4-5)

In addition, Council will hear a report on the Common Body of Knowledge, a report of the *ad hoc* committee on structure analyzing the effectiveness of the Institute, and review a report of the executive committee covering developments in the field of accounting principles.

The June issue of *The CPA* will include full coverage of the meeting.

Slate of AICPA officers selected for 1966-67

The nominating committee has proposed the following members as AICPA officers for 1966-67: For President — Hilliard R. Giffen, Giffen, Hills & Carruth, Fresno, California; for Vice Presidents — George D. Anderson, Anderson & Zur Muehlen, Helena, Montana; John P. Goedert, Alexander Grant & Company, Chicago; Ralph E. Kent, Arthur Young & Company, New York City; E. C. Leonard, Jr., W. O. Ligon & Company, Tulsa, Oklahoma; for Treasurer — David F. Linowes, Laventhol, Krekstein, Griffith & Co., New York City. The committee's slate will be voted on at the annual meeting in Boston (October 2-5).

Registration for annual meeting

This year, the advance registration form for the annual meeting will not be included as before in the June *CPA*. Instead, it will be included in a separate mailing to be made to members late this summer.

Annual meeting technical sessions are planned to emphasize "the art of consulting," "the use of the computer in aiding small businesses," "the Common Body of Knowledge for CPAs," "tax legislation in the Ninetieth Congress," and "changing concepts in professional ethics."

On the social side, a special post-meeting trip has been planned to Harwichport, on Cape Cod, for a clambake at the Wychmere Harbor Club. A four-day trip to Bermuda has been scheduled as an alternative post-meeting activity. Members will be kept informed of these and other activities through *The CPA* as details become firmed up. Full details will be in the special mailing.

***National conference of
bankers, CPAs
proposed***

President Trueblood has endorsed a proposal of the Institute's committee on relations with bankers to form a National Conference of Bankers and CPAs. The conference would consist of two sections: "bank accounting and auditing" and "financial reporting of borrowers." The Institute and the American Bankers Association are now in the process of appointing their representatives to the conference.

The AICPA committee at a recent meeting also authorized the development of a comprehensive program of activities to provide bankers with information on matters of mutual interest.

***Standing committee on
accounting education***

Three of the four major accounting organizations which will be represented by the Standing Committee on Accounting Education have appointed members to the group. The committee will explore the problem of accreditation and other important issues of accounting education.

For the Association of CPA Examiners: Lorin Wilson, California, and John Costello, Minnesota.

For the American Association of Collegiate Schools of Business: Dean Clark Myers, University of Miami, and Dean Frank Kaulback, University of Virginia.

For the American Accounting Association: Richard Czarnecki, Michigan, and Edward Lynn, Arizona.

For the American Institute: Leonard M. Savoie, New York, and James P. Ould, Jr., Virginia.

***Revised bank
confirmation form***

The committee on auditing procedure has prepared a proposed revision of the standard bank confirmation form that includes a request for information on any security agreements which the auditor's clients may have with the bank under the new Uniform Commercial Code. A draft of the revised form has been submitted to NABAC (The Association for Bank Audit, Control and Operation) for review and comment. The Institute committee anticipates that agreement on the revised form will be reached early this summer and that the form will be available from the Institute this fall.

***May 17 — American
Accountants' Day***

Last November at Mar del Plata, Argentina, participants at the Seventh Inter-American Accounting Conference reached decisions which had as their objectives the improvement of professional accounting standards throughout the area. In a recent letter to the presidents of 29 Latin American accounting organizations and the Canadian Institute of Chartered Accountants, AICPA President Trueblood wrote, in recognition of the 18th American Accountants' Day, May 17, "It is my hope that the spirit of professional cooperation and the good work engendered by conferences such as [Mar del Plata] will continue to flourish within and between our countries and professional organizations."

No formal change in extension policy this year, Internal Revenue Service tells American Institute

The Revenue Service has indicated that it will not make any formal changes in its extension policy for filing individual returns based on practitioners' workload — but that it would send a letter to all regions calling attention to the AICPA tax committee's concern over the matter and requesting that careful consideration be given to extension requests.

The AICPA committee had requested in March that the Service's policy regarding extensions be modified (*The CPA*, April 66, p.3).

At a recent meeting in Washington, D.C., Service officials told Institute representatives that Announcement 63-113, regarding the practitioner's workload, was as far as the Service could go, administratively, since any further change would have the effect of establishing an automatic proce-

dure. IRS pointed out that approximately 500,000 requests for extensions were made in 1965 and that requests for extensions have been increasing steadily, as a percentage of all individual returns filed, since the 1963 announcement.

The Service emphasized that no change was possible, especially this year, since there is considerable pressure from the White House to collect as much tax as early as possible.

IRS conceded, however, that there may be a lack of uniformity in the consideration of extension requests in the various districts. Revenue Commissioner Sheldon S. Cohen suggested that if, in the opinion of the Institute's tax committee, a particular area of the country was being too restrictive in handling extensions, the committee should inform him so that

he could investigate and take appropriate action.

In addition to Commissioner Cohen, the Service was represented by Robert L. Jack, Assistant Commissioner, Data Processing, and three other IRS officials. Donald Burns, general chairman of the Institute's tax committee and Gilbert Simonetti, Jr., assistant division director, technical services, AICPA, represented the Institute.

Have you read the new issue of MS magazine?

The March-April issue of *Management Services*, the Institute's magazine of planning, systems and controls, contains several articles of special interest to members.

"The CPA in Management Services: A Survey and Projection," by H. G. Trentin, CPA, traces the reasons for the involvement of CPAs in management services and explains the reasoning behind the view that the variety of services the CPA will be called on to perform will become more and more extensive in the future.

"Evaluating Research and Development Activities," by Maurice S. Newman, CPA, suggests a model by which the profits stemming from total R&D investment can be determined.

"How Hanes Hosiery Uses Clerical Work Measurement," by Thomas G. Eshelman of Hanes Corporation, illustrates how a ninety-person office effectively uses work measurement.

"Renaissance of Cleveland, Ohio," by Robert M. Smith, editor of *Management Services*, explains the leading role taken by an accounting firm in the rebirth of the nation's eighth largest city.

Single copies of *Management Services* are available from the Institute at \$1.25 each.

State society presidents urged to wire representatives to support HR 10

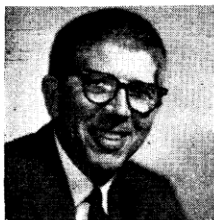
Presidents of state societies having members on the House Ways and Means Committee who are not sponsors of HR 10-type legislation received a telegram in mid-March from AICPA Executive Director John L. Carey asking them to actively support HR 10, a new bill to liberalize the Act covering pensions for the self-employed, which had the same HR number when it was enacted in 1962.

States which have representatives on the House Committee who are not sponsors of HR 10 include: Arkansas, California, Louisiana, Missouri, Florida, Oregon, Illinois, Tennessee, Montana, Massachusetts, Texas, Michigan, Pennsylvania, Georgia, and Ohio.

The telegram to the state society presidents read:

"House Ways and Means Com-

mittee expected to take up HR 10 very soon. Urge you, as state society president, to now wire [your representative], key committee member, asking active support of HR 10, to restore provisions passed in prior years by House, which were removed by Senate before passage of PL 87-792. HR 10 would improve this law by eliminating 50 per cent limitation on deductible contributions and removing ceiling of 10 per cent or \$2,500 on certain self-employed retirement contributions. Current law falls short of congressional intent. One wire from state society president would suffice. Other groups of self-employed in your state plan similar action. A copy of this being sent to [executive secretaries]."



FROM THE
PRESIDENT
ROBERT M. TRUEBLOOD

The Participating Member

PARTICIPATION in professional affairs is an obligation of the professional man. As accountants, we can be very proud of our record of participation in our state and national societies.

On the national level, our voluntary membership groups now consist of some half dozen major associations concerned exclusively with various aspects of the accounting function.

As CPAs, we have the American Institute of 55,000 members, supported by fifty-three autonomous societies in the states. The states, in turn, have over two hundred chapters. Without any formal or rigid organizational structure, the accounting profession has made remarkable progress.

It is virtually impossible to estimate the *time* that Institute members give to their professional organizations — in terms of either real or opportunity costs. It is possible, however, to measure the *scope* of members' participation in professional organizations.

Within the AICPA itself there are some sixty committees, which deal with almost every facet of professional activity — the improvement of technical and ethical standards, continuing education, direct assistance to the membership, and relations with other groups which have an interest in what we are doing.

These committees vary, of course, in their nature, their scope, and their function. Some are standing committees which have certain periodic or continuing responsibilities; others are more or less permanent because of the nature of their functions; and a few are *ad hoc* committees,

appointed to deal with specific nonrecurring matters.

Some committees require frequent meetings; many involve substantial homework; and a few can perform effectively primarily through correspondence.

Other than the 500-member committee on membership, which is promotional, committee activity involves the efforts of some 600 individual members who generally serve for three years.

Take the Board of Examiners, for example. A recent check showed that the average Board member devotes the equivalent of one working month each year to Institute affairs. The same extent of effort, or even more, is involved in other activities such as: the Accounting Principles Board, the auditing procedures group, and the professional ethics committee.

In fact, George Taylor, the Institute's controller, once estimated that if all committee members charged regular per diem for their services the Institute would be in the red in about three months.

State society participation

Much of the same situation, but multiplied many times, exists within the state societies. Let me quote figures from Pennsylvania, since I have the honor to be a past president of its Institute and also of its Pittsburgh chapter. The state Institute has some 33 committees requiring the energies of almost 400 members, not counting the membership committee with its 43 members and the state legislation committee with its 162 members. If you project this picture of local activity onto a na-

tionwide scale, it reaches almost staggering proportions. I would guess that, conservatively, there are over 10,000 CPAs who are serving their professional organizations in some official capacity.

One might logically ask if all this effort is really necessary to conduct the affairs of the profession, or whether the arrangement is efficient. On more than one occasion I have heard the mournful — but prideful — plaint from members that they have been spending so much time on Institute affairs that their practice is interfering with their professional activities.

Away from the "town meeting"

As the growth of the profession has accelerated from a mere handful in 1900 to over 90,000 today [see "Latest Statistics on CPAs," p. 7], it has been necessary to move further away from the "town meeting" concept toward a system of representation and delegation. We have had to ask relatively small groups of our colleagues to deal with particular aspects of matters more intensively than can any individual, and to work for the profession as a whole.

We have hired staffs to handle many of our day-to-day affairs; to study and advise on professional matters; to assist committee members and governing bodies; to co-ordinate our activities; and to provide the element of continuity so essential to an organizational structure.

The American Institute now has 200 full-time employees. They consist of CPAs who assist on technical matters and specialists in a variety of other areas which affect the profession. About forty-five states have paid staff, personnel ranging from part-time administrative assistants to groups

of substantial size and specialized skills. These staffs have made invaluable contributions to the profession. We could not operate without them.

In short, our professional organizations have grown up trying to maintain the delicate balance between personal participation and effective action, between democratic principles and efficient operation. We haven't always been successful, but on the whole I think we have done very well. Whether our present structure is the best that can be devised, I don't know. Certainly it has some faults and lacks.

One solution, of course, is to rely on the evolutionary process, with its trial and error method. It certainly works — *in the long-run*. I question, however, whether the accounting profession will be given this opportunity. Unlike the professions of law and medicine, which developed over hundreds of years, accounting is basically a product of this century. In accounting, our birth, childhood, adolescence, and maturity have all been compressed into a time span which is less than the life expectancy of a human in America.

The current rate of professional and technological change is so rapid that new problems pyramid atop the older, unresolved ones so fast that it makes even the older problems more difficult to solve. One of our very real challenges is to remain responsive to the will of an enlightened membership and to make effective decisions, within a reasonable time, which will prove acceptable to the membership. This may be largely a matter of communication.

We must improve the process by which members can make known their views. We should communicate decisions in persuasive terms that will demonstrate clearly that the solutions are well founded. Perhaps some changes are desirable in terms of increased delegation by the membership in authority granted to their elected

representatives. Or, some rearrangement of existing responsibilities may be needed.

We are currently studying this situation. A small committee on structure was recently appointed to review the present American Institute organization with an eye to suggesting possible improvements. Its provisional recommendations may be presented to Council this month.

An organizational framework can be built and improved upon, forums can be provided, and committees can be formed to study

and act upon particular matters. But, in the final analysis, a true professional man can never delegate his concern for, and participation in, all matters affecting the profession. He can't be an expert in everything, but he can keep well informed. He can evaluate his colleagues' views and he can make his own heard. If each of us assumes this obligation there are very few problems that cannot be resolved by reasonable, enlightened men — working together in a participative environment of goodwill and common goals.

AICPA computer consultant will direct activities of newly created task force on auditing EDP

The newly created AICPA task force on auditing EDP will be directed by Gordon Davis, CPA, who was recently named computer consultant to the American Institute (*The CPA*, April 66, p.5).

The task force, which held its first meeting on March 21 in New York City, decided, among other things, to: prepare for publication a manual setting forth the structure of auditing in EDP as

viewed by a group of experts in the field; and, until such time as the manual is completed, postpone consideration of a research program for problems which may need study beyond the scope of the task force.

The manual, the task force agreed, would:

1. Guide CPAs in auditing organizations using computers for record keeping
2. Provide source material for AICPA members
3. Provide a starting point for building an expert consensus on standards for auditing EDP
4. Suggest the utility and applicability of different methods where there is insufficient present experience to justify a clear determination of what should be done.

The manual will assume a basic understanding of computers on the part of the readers and will concentrate solely on computer systems. It will not cover punched-card systems.

The task force is made up of seven Institute members: Donald Adams (NYC), Kenneth Cadematori (NYC), Thomas Porter (NYC), John O'Donnell (Detroit), Donald Marvin (NYC), George Trentin (NYC), and Kenneth Stringer (NYC).

Auditing EDP Task Force Lists Problems to Consider

Legal requirements for file retention and hard-copy print-outs

The evaluation and use of the computer in performing tests on data processing

Use of computers in a management approach to auditing

Impact of computers on sampling approach to auditing

Test decks versus live transactions

Fraud implications of console operator

Computer generated test decks

Use of experts versus use of regular audit staff

Economics of audit of EDP

Looking Ahead

JUST what is the professional practice of accounting? Is it a conglomeration of unrelated services, more or less fortuitously appropriated by CPAs? Or is it a basic discipline, distinct from that of other professions or callings, which naturally extends to the solution of a widening variety of problem areas created by an ever more complex economy?

It is the latter, in the opinion of the Institute's planning committee. After nearly a year of research, discussion, and revision of successive drafts, the committee has completed a brief description of accounting practice which is now being circulated for criticism among a representative cross-section of the profession's leaders.

It is hoped that this statement, modified as necessary by the criticism received, may ultimately be approved by Council as an official policy declaration of what the accounting profession believes its role to be — now and in the foreseeable future. The description could then be amplified and illustrated in articles and speeches for the information of students, vocational advisers, clients, bankers and investors, and others concerned.

A clear conception of the CPA's role in society is a necessary prerequisite to intelligent consideration of what should be done about public relations, recruiting, education and training, professional standards, research, and the economics of practice. That is why the planning committee decided that its first job was to describe in conceptual terms what CPAs do, and why. All the other subjects are on its agenda, and a start has been made in formulating recommendations on some of them.

As background for its studies, the committee has an impressive volume of comment on the problems outlined in the book "The CPA Plans for the Future." Some of this comment appears in transcripts of more than a dozen two-day seminars on the book held in the past twelve months in various parts of the country. Additional comment has come from Institute committees, state society meetings, letters and interviews with individual members.

The end result, it is hoped, will be extensive recommendations by the planning committee as to what should be done, in every area of professional concern, by individual CPAs, firms, state societies and the Institute itself.

The entire exercise is an ambitious effort to peer into the future, identify the profession's objectives, and chart a course leading to their attainment. The program calls for completion of this task by 1969. If it is even well begun by then the profession will be much richer.

Do you communicate as well as you should?

Have you ever really been able to:

- deliver a formal presentation to a board of directors?
- interpret fully a staff man's problems?
- write an effective report to a client?
- participate as much as possible in a meeting?

• grasp quickly the "gist" of the reading matter you're confronted with everyday?

Simply, are you able to communicate effectively?

A new AICPA professional development two-day workshop, "Effective Communication," which will be given for the first time this spring and summer, stresses practical work exercises that will enable you to sharpen your communication skills by actually using them.

The exercises will allow each participant to analyze his particular communication problems and to make use of the helpful suggestions explained in the course.

In today's environment of rapid technological and social change, practitioners have an obligation to improve their means of handling everyday professional activities. If you want to keep pace — this course is for you.

The superior man understands what is right; the inferior man understands what will sell.

The superior man loves his soul; the inferior man loves his property.

The superior man is always candid and at ease with himself or others; the inferior man is always worried about something.

from "The Compleat Professional Man"
The CPA, February 1966

APB currently works on 11 new opinions, lists 17 subcommittees and projects

The Accounting Principles Board currently has eleven new opinions in the drafting stage or planned. In all, the APB has seventeen subcommittees engaged in various projects. This is how they break down:

- A planning subcommittee (Clifford V. Heimbucher, chairman) whose main purpose is to develop short- and long-range plans for the Accounting Principles Board

- Four subcommittees to review materials prepared by other Institute committees:

- Bank accounting (Herman W. Bevis, chairman)

- Fire and casualty insurance companies (John Peoples, chairman)

- Health and welfare organizations (Marshall S. Armstrong and Robert Witschey)

- Railroad accounting (Philip L. Defliese, chairman)

- Eleven subcommittees to develop proposed opinions on the subjects assigned to them:

- Disclosure of deferred taxes relating to depreciation by public

- utilities (Clifford V. Heimbucher, chairman)

- Accounting for leases in financial statements of lessors (Herman W. Bevis, chairman)

- Interperiod allocation of corporate income taxes (Donald J. Bevis, chairman)

- Components of a business enterprise and division and product lines (Philip L. Defliese, chairman)

- Foreign operations and foreign exchange (Donald J. Bevis, chairman)

- Income and retained earnings (Frank T. Weston, chairman)

- Nature and objectives of financial statements (Oral L. Luper, chairman)

- Omnibus opinion (Philip L. Defliese, chairman)

- Pensions (John W. Queenan, chairman)

- Price-level adjustments (LeRoy Layton, chairman)

- Treasury stock (George R. Catlett, chairman)

- And a subcommittee on looseleaf edition of bulletins and opinions (Robert J. Murphey, chairman) to consider the feasibility of publishing, in looseleaf form, and keeping up to date, all bulletins and opinions dealing with accounting principles.

Legal liability, accounting principles are subjects of business-press features

A *New York Times* (March 27) feature discussed at length the profession's concern over possible legal liability. Statements from Institute spokesmen and other CPAs were used extensively in pointing out the auditor's role, concluding with this comment from an anonymous AICPA representative:

"Our service is that of a skilled

outsider taking an independent look at the representations of the company. We offer reasonable protection against unsound accounting practices and undue optimism. We are expected to, and must, have the skills and competence of our profession, and we willingly accept that responsibility. But we are not guarantors or insurers. We are not bloodhounds."

In an editorial headed "The Accounting Dilemma" *Dun's Review* (March) referred to "generally accepted accounting principles" as "a vague generalization" and called for "a more determined will to put responsibility where it belongs through mutual consent of accountant and client 'lest the issue lead to the courtroom and to a more rigid definition by government regulation.'"

This Week magazine (March 20), with a circulation of almost 15 million, examined the CPA's role as a personal adviser in a story headed "The Money Doctors." In referring to this role the article says: "They [CPAs] run their clients' businesses, budgets

Latest Statistics on CPAs

According to a recent AICPA survey, there are an estimated 92,130 CPAs in the United States, 53,530 of whom are members of the American Institute. A survey made a year earlier indicated a total of 87,890 CPAs, of whom 50,210 were Institute members.

The most recent tabulation, made in late 1965, listed 61,825 CPAs as being members of state societies. This compares with 58,570 a year earlier.

Here are the top five states in terms of total number of CPAs, AICPA membership and state society membership:

	Total CPAs (Est.)	AICPA resident members	State society resident members
New York	17,696	7,268	12,292
California	10,099	5,862	6,978
Illinois	6,800	3,450	3,946
Texas	5,410	3,567	4,288
Pennsylvania	5,287	3,298	3,898

and — very often — their lives.”

Institute and state society prepared tax articles have been appearing in various newspapers throughout the country. Also, much of the material has been used by the personal finance writer of *The New York Times* and a summary appeared in *Good Housekeeping* magazine (March) under “When an Accountant Can Help on Tax Returns.”

The first of a two part article “The Public, the Corporation and the CPA” by President Trueblood has appeared in *The Exchange* magazine and the remainder is scheduled soon. This article traces the history of accounting and the importance of the CPA to the investor.

Bank accounting practices were the subject of two recent articles: a critical report in *The New York Times* (Feb. 20) and an extensive review in the *American Banker* (March 8) of the proposed booklet on this subject by the Institute’s committee on bank accounting and auditing.

1966 Staff Training Course Schedule

	Live-In
August 1-12	College of William and Mary, Williamsburg, Va.
August 8-19	Wittenberg College, Springfield, Ohio
August 8-19	University of Rhode Island, Kingston
August 8-19	Trinity University, San Antonio, Texas
August 22-September 2	Menlo College, Menlo Park, Calif.
August 22-September 2	University of Colorado, Boulder, Colo.
August 22-September 2	Bradley University, Peoria, Ill.

	Non Live-In
August 22-September 2	DePaul University, Chicago, Ill.
September 12-23	Drexel Institute of Technology, Philadelphia, Pa.
September 19-30	Robert Morris Jr. College, Pittsburgh, Pa.

“What kind of program is it?” Ten full days of lectures, case discussions, problem-solving sessions, workshops, and guided study — all designed to give your staff accountants the basics every practitioner must have.

“Who can attend?” Any member of your staff. But the pro-

gram is especially meaningful to staff men of small- and medium-sized firms and to the newer members of all firms.

“How can you find out more?” Contact the Professional Development Division, American Institute of Certified Public Accountants, 666 Fifth Avenue, New York, N.Y. 10019.

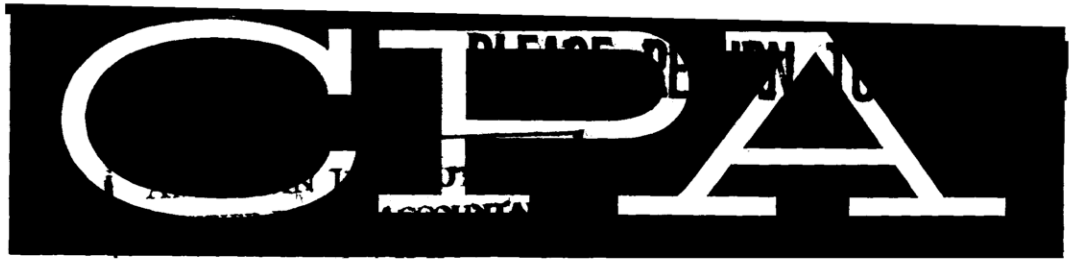
CPA

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THE JUNE 1966



***Council meeting:
Boca Raton, Florida,
May 2-5***

This issue of *The CPA* includes a special supplement devoted entirely to the recent meeting of Council in Boca Raton, Florida. Detailed coverage of this important session, in which the AICPA's governing body took action regarding accounting principles, professional ethics and the structure of the Institute itself, starts on page 3.

***House committee
reports out HR 10***

An amended version of Representative Keogh's HR 10 was reported out of the House Ways and Means Committee on May 20. The legislation would remove the present 50 per cent deduction limitation on the allowable contributions (10 per cent of "earned income" or \$2,500, whichever is the lesser) by a self-employed individual to a plan. The Institute has asked state societies to urge their Representatives to support the bill.

***The Common Body
of Knowledge***

In his column this month, President Trueblood discusses The Common Body of Knowledge for CPAs, which is slated for publication this fall. After briefly going into the report's background, President Trueblood outlines the significance of the report and what its implications are for the profession (page 19).

***Practitioners' work-
loads and IRS
extension policy***

What was the average practitioner's experience during the last two years with the IRS policy regarding extension of time for filing individual income tax returns? That is what the Institute's tax committee hopes to find out from a questionnaire which has been mailed to more than 2,500 members (page 2).

***Tax committee asks
Congress to act***

The tax committee has also written letters to the chairmen of the Senate Finance Committee and the House Ways and Means Committee urging that favorable action be taken on bills (HR 13070, S 3181) providing for liberalized treatment of employer reimbursement for moving expenses of employees. The House group was further urged to act favorably on HR 14585, a bill providing, in the case of an unused investment credit, the same rules for quick refunds of income tax as now exist in the case of a net operating loss. These bills are similar to the legislation urged by the tax committee in its June 1965 legislative recommendations booklet.

***Staff training program
change***

The dates and site of the Philadelphia staff training course have been changed to avoid conflict with observation of the Jewish New Year. The course will be held at St. Joseph's College September 19-30 — not at the Drexel Institute, September 12-23, as originally announced in the May *CPA*.

Tax committee gathers data on members' experience with IRS extension policy

The Institute's tax committee wants to know what the experience of members has been over the past two years with regard to the IRS policy on extension of time for filing individual returns. To find out, it has sent a questionnaire to 2,600 practitioners.

The purpose of the questionnaire is to determine the nature and extent of the extension problem so that "appropriate administrative or legislative action may be initiated."

The questionnaire asks for information regarding:

The number of returns filed by the CPA's office

The number of man-hours spent in tax return preparation

The number of requests for extension of time for filing individual income tax returns filed by the office

The number of extension requests granted

The number of extension requests originally denied but subsequently granted after further communication with the Service.

In a letter sent with the ques-

tionnaire, members were told, "In view of [the tax committee's] most recent attempt to obtain further administrative liberalization of the Service's extension policy, we were quite surprised to receive reports from a number of members around the country that the application of the policy was

more restrictive this year than at any other time in the past. This latest development makes it imperative that we gather data to determine the nature and extent of the problem."

Earlier this year, the tax committee urged the Service to liberalize its extension policy, especially with regard to practitioner workload (*The CPA*, April 66, p.3).

Members have been asked to return the questionnaires by June 17.

March sub-board decisions become effective; two members are expelled and another is suspended

At a meeting in Phoenix, Arizona, on March 3, 1966, a sub-board of the Institute's Trial Board rendered decisions resulting in the expulsion from the Institute of one member and the suspension from Institute membership of another. The cases against the two members were presented by the ethics committee.

In the first case, the ethics committee charged that Will Morrow Mitchell, 6854 Winnetka, Canoga Park, California, had violated Rule 3.01 (advertising) and Rule 3.02 (solicitation). Mr. Mitchell was not present at the hearing and prior to the meeting had offered to resign from the Institute. The sub-board refused to accept his resignation, found that he was guilty as charged, and decided that he should be expelled from Institute membership. No request for review was filed, and Mr. Mitchell's expulsion became effective on April 2, 1966.

In the second case, the sub-board considered charges that Leslie Murray, Jr., of 534 East Thomas Road, Phoenix, Arizona, had violated Rule 1.01 (independence) in that his partner, with Mr. Murray's knowledge and using the letterhead of the partnership, expressed an opinion on financial statements of an enter-

prise in which Mr. Murray held a direct financial interest. The sub-board found that Mr. Murray had violated Rule 1.01 and was guilty of an act discreditable to the profession. The respondent was present at the hearing. The sub-board decided that he should be suspended from Institute membership for two years. No review of the sub-board's decision was requested, and, accordingly, the suspension became effective on April 2, 1966.

A sub-board of the Institute's Trial Board met in New York on March 23, 1966, and found that Louis Irwin, 551 Fifth Avenue, New York, New York, had violated Article V, Section 5, of the Institute's By-Laws, which requires the expulsion of a member if the sub-board finds that he has been convicted of a felony or other crime or misdemeanor involving moral turpitude. The respondent, who was present at the sub-board meeting, had been convicted of violating Section 201(f) of the federal bribery statute (18USC201). The sub-board found him guilty as charged and decided that he should be expelled. No request for review of the sub-board's decision was filed and the decision became effective on April 22, 1966.

Proposed Statement No. 4 on Tax Practice Responsibility

Proposed Statement No. 4 in the AICPA tax practice responsibilities series is currently out for exposure.

The statement, "Recognition of Administrative Determination of a Prior Year," would explain when a CPA may sign the preparer's declaration on a federal tax return in which treatment of an item differs from the treatment consented to by the taxpayer for a similar item as a result of an administrative proceeding concerning a prior year's return.

Institute members can receive a copy of the exposure draft on request.

Council acted on several matters of vital importance to the profession, and a great number of Council members came to Boca Raton to vote on the issues — 207 out of a total of 229. Members can study the issues in the call to meeting (pages 13-18).

Council approved with one exception the report of the committee on structure of the Institute (page 4), approved with two modifications the recommendations of the special committee on Opinions of the Accounting Principles Board (page 10), and voted to repeal Rule 3.03 of the Code of Professional Ethics on competitive bidding (page 7). Council also heard reports from the . . .

Planning committee (page 5), which has prepared a tentative description of the practice of public accounting by CPAs (page 6), and the

EDP committee (page 12), which outlined the progress to date in the Institute's computer program, and other senior committees (pages 9 and 12).

Several distinguished speakers addressed Council . . .

Andrew Barr, Chief Accountant of the Securities and Exchange Commission, commented at some length on the APB and its program for the immediate future (his remarks, as authorized by the SEC, will appear in the *July Journal of Accountancy*);

Professor Herbert Miller, president of the American Accounting Association, urged closer co-operation between educators and practicing accountants;

Professor Ezra Solomon, recently appointed economic consultant to the Institute predicted that "many statistics of economic activity will continue to rise including, I hope, the volume of your own practices"; and

Walter Witthoff, president of the Association of CPA Examiners, noted the efforts being made by that organization and the Institute to solve mutual problems.

Council paused to mourn the sudden death of past AICPA president T. Dwight Williams of Oklahoma City, Oklahoma, who died while en route to the Florida meeting. The governing body passed a resolution which noted in part: "As president in 1945-46, Dwight Williams, at great personal sacrifice, contributed immeasurably to the renewed forward surge of the Institute at the conclusion of World War II. By traveling throughout the country, despite uncertain transportation facilities and adverse effects on his own professional practice, he reunited the membership in the cause of advancing the profession."

The CPA Medal for Distinguished Service — the Institute's highest award — will be presented this year at the annual meeting in Boston to L.H. Penney of San Francisco, Council learned from J. T. Koelling, chairman of the committee on awards.

The honor roll of states for the November 1965 CPA examination, reported by the Board of Examiners, includes: Colorado, Illinois, Iowa, Massachusetts, Minnesota, Mississippi, Montana, Vermont and Wisconsin. Candidates taking the examination in these states received passing percentages in all four subjects higher than the national average.

COUNCIL: MAY 1966
BOCA RATON, FLORIDA

Structure committee recommends stronger Institute organization

It finds that the Institute has crossed the line

separating a small from a large organization but that its

structures and procedures have not fully adjusted to the change.

Upon the recommendation of the executive committee, Council approved — with one exception — the report of the committee on structure, a special committee appointed last fall to evaluate the effectiveness of the Institute's organization.

Council unanimously approved the other structure committee recommendations which provide for:

- Expansion of the executive committee to 16 members — the seven Institute officers plus nine members or former members of Council

- A co-ordinate group of three deputy directors in the executive office of the Institute

- John Lawler, managing director of the Institute, to be assigned full responsibility for staff administration while John L. Carey continues his service as executive director of the Institute until his normal retirement date in May 1969, at which time Mr. Lawler should succeed him as executive director.

The exception to the committee's recommendations was the proposal that the office of president of the Institute be made a full-time paid position, "to be filled by an eminent, highly qualified CPA with strong leadership capacity." The proposal was referred to the executive committee for further study.

Prior to preparing its report, the structure committee circularized more than 3,500 members and conducted more than 30 detailed interviews.

The committee concluded from its fact-finding efforts that "despite

problem areas which need attention, the Institute has had a remarkable development, that its staff and management compare favorably with that of the best of similar organizations, that it stands in a prestige position as a quality institution, and that it has the resources to move with assurance in meeting the ever-growing needs of the profession."

However, the committee also found that "at some time in its history, the Institute passed over the line that separates a 'small from a large' organization — in both sheer size, as well as complexity of program — and the structures of procedures of the Institute have not fully adjusted to this change."

The committee's recommendations are intended to deal with this expansion.

For example, the committee feels that enlarging the executive committee and extending the term of some of its members would result in "increased participation, wider representation and continuity in office." (See Proposal No. 2, "Notice of Seventy-ninth Annual Meeting," p. 18.)

Staff deputy directors

The staff deputy directors would "provide closer supervision and direction to the many and varied activities of the Institute. . . .

"The staff has grown too large, and its activities too diversified," the committee reported to Council, "for the present administrative structure, with all of its ten division directors reporting directly to the executive office."

The Institute has already taken the first step in implementing the "deputy director" proposal. Last summer, Dr. Guy W. Trump was chosen to fill the position of director of education, with responsibility for co-ordinating all educational and recruiting activities, including those of examination preparation and professional development (*The CPA*, July-Aug. 65, p. 3).

A second deputy director position, the committee said, "should be filled by an outstanding CPA who would oversee the accounting, auditing and other technical activities, and provide necessary staff assistance to the various technical boards and committees of the Institute."

A third deputy director would furnish overall guidance to the Institute's internal operations, professional relations and staff personnel.

"It is probably inevitable," the committee reported to Council, "that the dynamic growth of the profession will produce some tension between members who are active — and want to be more active — and a strong staff which will carry the major burden of the work. The problem is to make this a constructive tension."

A set of goals

The best way to resolve the problem, the committee said, is "to hold before members and staff a set of goals that will keep all stretched — all of the time."

The committee listed these goals:

Working through its established structure of Council, executive committee, and officers, the Institute intends to build the size and quality of its staff and organize its effort for optimal effectiveness in both direct staff work and assistance to committees.

The Institute shall move with speed and precision in all of its work in order to strengthen continually its service and its leadership.

By its performance, the Insti-

tute will earn acceptance as the authoritative source of principles and procedures in its field.

It will maintain a strong influence on public opinion, regulation, and legislation on matters of concern to the profession.

In its field, the Institute will be the prime source of research in the production of new knowledge, in the analysis and synthesis of experience and in the development and adaptation of new procedures and techniques.

It shall maintain a close surveillance of practice in the profession in the interest of universally high standards of professional performance and the maintenance of full public confidence in the work of the profession.

President Trueblood urges emphasis on profession's common objectives in area of accounting principles

The highlight of the four-day Council meeting was, to most members present, President Trueblood's off-the-record speech on accounting principles. Council, in fact, thought the speech so important that it unanimously approved a resolution from the floor that the speech be reproduced in full and distributed to the membership. (It is currently being printed and should reach members soon after this issue of *The CPA*.)

President Trueblood called for "a series of constructive, positive accomplishments" that the profession can take to the press with pride, and for a moratorium on carping criticism within the profession.

And he said that recognition of the authority of APB Opinions by Council members would be the strongest possible influence toward recognition of the authority of APB Opinions throughout the profession.

"We have made great progress in improving the tools we use in serving society. And," he said, "I am convinced we are on the

It will extend its effective concern for the quality of persons entering the profession and be a recognized constructive influence on education for the profession, ultimately upon all business education.

It will enlarge and strengthen its educational role within the profession by maintaining a high quality of publication and program development.

"The general aim," the committee said, "is to sustain the Institute as a symbol of distinction for the profession: by an exceptional quality of staff performance, by the wide participation of its members, and by the intensive creative involvement of the best of the profession in the affairs of the Institute."

threshold of still greater accomplishments."

He told Council: "There have been disagreements within the profession about the most appropriate means for making progress on principles. There will always be differences of viewpoint among us — that is healthy and that's good. But there is no disagreement as to the end we seek, which is the continued improvement of financial reporting and of our ability to serve society.

"I submit that when reasonable men hold a common objective, share membership in the same organization, and keep channels of communication open between themselves—these reasonable men can reach agreement on the path to be followed and the decisions to be made.

"Effective leadership cannot be exercised by a divided profession. After the investigations I have made, and after the thinking I've done, however, I am convinced that our profession happily possesses a high degree of unity. And let's keep it that way."

Planning committee lists agenda issues

The planning committee at Boca Raton made its first report to Council since it was appointed in the Spring of 1965.

The chairman of the committee, Gordon Ford, told Council that the major questions to be resolved by the committee are:

- What is the professional practice of public accounting?
- Assuming clear goals, an accepted concept of professional accounting practice, and satisfactory human input, what should be the standards of competence for qualification as professional accountants?
- In the light of the profession's goals, and its own conception of the nature and scope of its practice, what type of human input will be needed to make possible achievement of the goals?

- What, if any, additional action should be taken to improve client and public understanding of the nature, scope and value of present and future services of CPAs?

- What research programs or studies should the Institute conduct or stimulate in addition to research on generally accepted accounting principles?

Mr. Ford told Council that the greater part of the committee's meetings since the annual meeting in Dallas has been devoted to a completion of a brief description of the nature of the professional practice of public accounting by CPAs (for the committee's tentative statement, see p. 6).

The committee's first mission, Mr. Ford said, is to gather information regarding the problems identified in John L. Carey's long-range objectives book, *The CPA Plans for the Future*. Then it will attempt to determine the major goals of the profession and to develop guidelines by which these goals might be reached.

Accounting is a discipline which provides financial and other information essential to the efficient conduct of the activities of any organization.

The information which accounting provides is essential (1) to discharge the accountability of organizations to investors, creditors, government agencies, taxing authorities, association members, contributors to welfare institutions, and others; and (2) to permit effective planning, control and decision making by management.

Accounting includes the development and analysis of data, the testing of its validity and relevance, and the interpretation and communication of the resulting information to intended users. The data may be expressed in monetary or other quantitative terms, or in symbolic or verbal forms.

Assumptions and estimates

Much of the data with which accounting is concerned is not exact or precisely measurable, but necessarily involves assumptions and estimates as to the present effect of future events and other uncertainties. Accordingly, accounting requires not only technical knowledge and skill, but even more importantly, disciplined judgment, perception and objectivity.

Certified public accountants are the identified professional accountants. In their practice of public accounting they bring competence of professional quality, an independent point of view, and a strong concern for the usefulness of the information and advice they provide.

The professional quality of their services is based upon the requirements for the CPA certificate—education, experience and examination—and upon the ethical and technical standards established and enforced by their profession.

CPAs have a distinctive role

A tentative description

of the

professional practice

of public accounting

by CPAs

prepared by

the Institute's

planning committee

in examining financial statements submitted to investors, creditors and other interested parties, and in expressing independent opinions on the fairness of such statements. This distinctive role has inevitably led to a need for the opinions of CPAs on a wide variety of other things, such as compliance with rules and regulations of government agencies, sales statistics under lease and royalty agreements, and adherence to restrictive covenants in indentures. The examination of financial statements requires CPAs to review many aspects of an organization's activities and procedures. Consequently they can advise clients of needed improvements in internal control, and make constructive suggestions on financial and other operations.

In addition to the advice given in conjunction with their independent examinations, CPAs are also engaged to provide objective advice and con-

sultation on various complex problems. Some of them involve internal financial and information management, such as budgeting, cost control, profit planning, internal reporting, automatic data processing, and quantitative analysis for decision-making. Among the major management problems depending on the accounting function is compliance with tax requirements. An important part of the CPA's practice includes tax planning, tax advice and assistance in preparation of tax returns. CPAs represent their clients in conferences with government agencies, such as the Internal Revenue Service and the Securities and Exchange Commission, and with others, such as bankers, who have a legitimate interest in information about the clients' affairs. CPAs may properly assist in the implementation of programs approved by management, but they do not make management decisions.

Like other professional men, CPAs are often consulted on general business problems on which their judgment, experience, and professional standards permit them to provide helpful advice and assistance.

High degree of specialization

The complexities of an industrial society encourage a high degree of specialization in all professions and disciplines. The accounting profession is no exception. Its scope is so wide and varied that many individual CPAs choose to specialize in particular types of service.

However, despite the diversity of their activities, all CPAs have demonstrated basic competence of professional quality in the broad field of accounting. It is this which unites them, as members of the same profession, and provides a foundation for extension of their services into new areas.

Council votes to repeal Rule 3.03 on competitive bidding; members will discuss proposal at annual meeting

- *By a better than two-to-one vote, Council approved an amendment to the Code of Professional Ethics to repeal Rule 3.03 on competitive bidding.*
- *The proposed deletion of the rule had the unanimous backing of the executive committee and the committee on professional ethics.*
- *Both committees have been studying the matter for more than two years and have been guided by the counsel of two eminent law firms.*

The major concern that prompted the recommendation: The rule has exposed the Institute, its members and its officers to serious risks of violation of the federal antitrust laws.

In urging approval of the repeal amendment, the executive committee made these observations:

"In the years since this rule was adopted, the courts have set increasingly rigid standards for compliance with antitrust laws, and increasingly broad concepts of what constitutes interstate commerce.

"Remote as the possibility might seem to us that a professional society would be challenged in an effort to maintain a high quality of service to the public, two prominent law firms have advised the Institute that under developing legal concepts it would be wise to repeal the rule because of the grave risk of violation of the antitrust laws. Even though the competitive bidding rules of professional societies are subject to challenge under federal antitrust laws, properly designed state board rules on the same subject, issued under statutory authority, may be immune from attack under federal law.

"In any case, the Institute obviously should never consciously remain in a position which could raise the slightest doubt as to whether it was acting contrary to public policy."

At the 1966 spring Council meeting, the Institute's legal counsel

discussed the risks of violation of the federal antitrust laws in detail.

Counsel's discussion

The substance of counsel's discussion of Rule 3.03 follows:

Whatever difficulties there may be in determining whether the rule applies in particular situations, its general meaning is clear. It is, in effect, an agreement among the members that they will not engage in price competition.

Section 1 of the Sherman Act prohibits all agreements among competitors relating to prices. This prohibition is often described as directed against price fixing, but it is not confined to agreements to fix particular prices or to fix a particular price level or to agreements on uniform prices. It applies broadly to all agreements among competitors in any way.

The courts have held that price agreements among competitors are illegal per se. This means, among other things, that such an agreement cannot be justified on any ground.

An agreement like the one in Rule 3.03, if made by persons engaged in any ordinary interstate commercial activity, would be plainly unlawful per se under Section 1 of the Sherman Act.

The prohibition against price fixing would apply to Rule 3.03 unless for some reason the Sherman Act does not apply to agreements among accountants in the same

way that it applies to agreements among those engaged in ordinary commercial activities. In this connection, there are two points that deserve discussion.

The application of Section 1 of the Sherman Act is limited to activities that restrain interstate commerce. It appears unlikely that the application of the Sherman Act could be avoided on the ground that the practice of accounting is essentially a local activity and that practitioners in this field are not engaged in interstate commerce.

Moreover, Section 3 of the Sherman Act prohibits agreements among competitors relating to prices within the District of Columbia and thus is not limited to interstate commerce.

Application to the professions

The second point is whether the Sherman Act applies to the professions. By its terms the statute applies to activities that restrain "trade or commerce." It has sometimes been suggested that the practice of a profession, such as law, medicine or accounting, is not "trade or commerce" and that, accordingly, the act does not apply to those engaged in the practice of a profession.

The Supreme Court has never passed on the question whether the practice of law, medicine or accounting is trade or commerce within the meaning of the Sherman Act. That court, however, has

applied the Sherman Act to a provision in a code of ethics adopted by an association of real estate brokers.

The United States Court of Appeals for the District of Columbia has decided that the provisions of the Sherman Act do apply to the professions. It held that the practice of medicine is trade or commerce within the meaning of the Sherman Act. Its opinion, written by a conservative judge, contains a detailed and thoughtful analysis of the meaning of the phrase.

It is doubtful that the present Supreme Court will hold that the professions enjoy any general immunity from the application of the Sherman Act. Moreover, it is unlikely that the Supreme Court would approve any immunity from the Sherman Act which is broad enough to permit the members of a professional association to engage in price fixing agreements or combinations.

What has been said about the Institute's rule against competitive bidding would apply also to the American Bar Association if it should adopt a canon of ethics prohibiting competitive bidding. It should be noted, however, that it might be less vulnerable to antitrust charges on the interstate commerce point because of the nature of the practice of lawyers as contrasted to that of accountants.

Possible legal tests

If the legality of the Institute's rule should be challenged in a proceeding brought under the Sherman Act, probably it would be held to be unlawful.

There are different kinds of legal proceedings in which the question of the legality of the Institute's rule might be raised.

The United States can bring criminal proceedings to punish violations of the act. The Institute itself could be a defendant in such a proceeding. Any member of its Council or any of its officers or agents or any member of the Institute who had authorized, or-

dered or done anything to enforce, to apply, or to interpret the rule might also be a defendant. Any defendant found guilty in a criminal proceeding may be fined not more than \$50,000, or imprisoned for not more than one year, or both.

The United States could also bring a civil suit to enjoin the enforcement of the rule. To win a suit of that kind the United States would merely have to convince the court that the rule was unlawful. It would not have to prove any injury or money damages. If the United States should win that suit, the court could not only enjoin the Institute and its members from enforcing the rule but it could also affirmatively require the Institute to remove the rule from its Code of Ethics.

The United States could also sue to recover simple damages in any case in which the enforcement of the rule has inflicted money damage upon the United States or any of its agencies. In a case of that kind, the United States would have to prove that it or one of its agencies had actually suffered money damage that was caused by the rule.

Private persons are also entitled to sue under the antitrust laws. A private person is entitled to sue and to recover treble damages, plus a reasonable attorney's fee, for any injury inflicted upon him by a violation of the antitrust laws. To succeed in a suit of this kind the private person would have to prove that in fact he had suffered money damages because of the existence or enforcement of the rule. A private person could also sue the Institute or the members of its Trial Board or ethics committee to enjoin their enforcing the rule against him.

As long as the rule remains in the Code of Ethics there is a substantial risk that something may occur that will cause someone to challenge the legality of the rule by one or more of the various forms of legal proceedings described above. This might happen, for example, if the Institute should

enforce the rule against an individual member either by expelling him or by suspending his membership. If this should happen, the individual might complain to the Department of Justice and be successful in instigating action by the antitrust division. If the individual wished to proceed on his own, he could sue for treble damages. He could also sue for an injunction.

A challenge to the legality of the rule might be instituted by someone who is aggrieved because he could not obtain competitive bids for accounting services. This might happen, for example, in the case of a municipal agency or corporation which was unable to obtain competitive bids because members of the Institute were complying with the rule. Such an agency or corporation might institute legal proceedings on its own or it might complain to the Department of Justice and thus instigate the United States to start proceedings. The same thing could happen in the case of a federal agency of some kind which had been thwarted in its attempt to get competitive bids. It could certainly complain to the Department of Justice.

Status quo no guarantee

It should not be assumed that simply because the rule has been in the Code of Ethics for many years, without anyone's attacking its legality, that this situation will continue. Others have found, to their dismay, that the fact that a practice or rule has existed for a long period of time is no assurance that it will not be attacked under the antitrust laws.

What has been said about the legality of the rule also applies to similar rules that may be contained in codes of ethics adopted by state societies. In this connection, insofar as the rules of state societies operate only on intrastate activities and have no effect on interstate commerce, they are not subject to the federal antitrust laws. But to the extent that those rules affect the conduct of members

who are engaged in interstate commerce, as many members of state societies doubtless are, the rules of law mentioned above would apply.

State Boards of Accountancy or other state agencies which have adopted rules of professional conduct that prohibit competitive bidding in the practice of accounting may stand on a different footing from the Institute's rule. Under general principles announced by the Supreme Court, state action, or official action directed by a state, that results in a restraint of trade, is not prohibited by the Sherman Act.

For this principle to apply two conditions must be satisfied. In the first place, the state regulation must be in conformity with state law. This means that the state agency that issues the rule must have authority under state law to promulgate the rule. It also means that the state agency must have issued the rule against competitive bidding in conformity with any procedures that state law requires the state agency to follow.

In the second place, the state board or other agency which issues the rule must be an agency which is established and controlled by the state so that it is clear that the action of the agency is state action and not simply action taken by a private group.

Members to discuss proposal

The recommended amendment to repeal Rule 3.03 on competitive bidding will be discussed at the annual meeting in Boston (see p. 18 this issue). It will then be submitted to the entire membership for a mail ballot. In order to become effective, one-third of the membership must vote on the amendment, and two-thirds of those voting must approve it.

Concurrently, the executive committee will study the possibility of framing a statement exhorting all members to avoid setting fees so low that they may tend to impair the quality and professional character of the services.

AICPA deficit this year is lower than expected, but future years hold prospect of increased costs

The projected deficit for the Institute's fiscal year 1965-66 now appears likely to approximate \$52,000, Treasurer David Linowes told Council. However, he added, this figure represents a considerable drop from the \$100,000 deficit originally anticipated.

The lower deficit figure reflects both good income from the Institute's investment experience and reduced personnel costs due to inability to fill all authorized Institute staff positions.

On the other side of the ledger, Mr. Linowes reported that the executive committee has authorized a \$5,000 contribution to the American Thrift Assembly, the group seeking improved tax treatment for pension funds for self-employed persons (*The CPA*, March 66, p. 1).

In marked contrast to the favorable financial results of recent years, the years ahead hold the prospect of substantial deficits for the AICPA. Horace Barden, chairman of the budget and finance committee, alerted Council to the executive committee's attempts to prepare for meeting these increased expenditures. He noted that they will result largely from a combination of the increasing cost of the accounting research program and the exhaustion of the original generous funds given by many firms to inaugurate the research program.

In response to a member's query as to what plans have been made to meet this deficit, Mr. Barden reported that the executive committee at its July meeting would explore a number of alternative solutions and develop a proposal for the Council's consideration.

Mr. Barden reported that two of the Institute's more recent major projects were measuring up well to their projected financial yardsticks. "*Management Services* magazine," he said, "is making great progress,"

and the professional development program "continues to be in the black." He reassured Council that if either of these programs should run the risk of incurring financial deficits, the budget committee could cut back these expenditures to a lower level.

Finally, a considerable increase has been provided for legal fees for 1966-67, reflecting the several projects to deal with the growing problems of legal liability suits against accountants.

Auditing procedure... committee issued "Long-Term Investments" and "Letters to Underwriters"; prepared first draft of special report on audits of warehouses; scheduled for distribution exposure draft of proposed statement on "Interpretation of 'Extensions of Auditing Procedure' Relating to Inventories"; did further work on developing statement clarifying independent auditor's responsibility for unaudited statements or when his name is "associated with" financial figures released by client without customary audit report.

Management services... committee reorganized in order to provide leadership and guidance in philosophical, operational and technical aspects of MS practice; prepared drafts of bulletins of "The Nature of Management Services" and "Competence in Management Services" and started to work on drafts of bulletins on the CPA's role in management services and responsibility in management services.

Council approves special committee recommendations

Council approves
recommendations
of special committee
on Opinions of APB
and hears
report of APB Chairman
Clifford V. Heimbucher

The recommendations of the special committee on Opinions of the Accounting Principles Board made at the spring 1965 meeting of Council (*The CPA*, June 65, p. 3) were approved this year by Council with two modifications.

One modification (*Recommendation 7*) would permit the acceptance of contributions from educational foundations or other sources outside the profession to finance the accounting research program if, in the view of the executive committee, such support would not in any way jeopardize the integrity of the program.

The other modification (*Recommendation 8*) relates to amending the Code of Professional Ethics to deal with any failure to disclose departures from APB Opinions. Council approved deferment of consideration of such action until the time suggested in the special committee's report — the spring 1968 meeting of Council.

The status of the other recommendations approved by Council is as follows:

The Accounting Principles Board has given high priority to developing a series of basic documents in response to *Recommendation 1* — a six-part section dealing with the purposes of published financial statements, the identification of basic concepts and accounting principles, and definition of terminology. The first document will be directed generally to the functions of financial statements — their purposes and limitations; a draft is expected to be ready for consideration at the APB's meeting next February. The second document will be concerned with basic concepts underlying financial statement preparation. The third will be addressed to broad accounting principles. The American Institute's accounting research staff has assembled background material for the second and third booklets.

Recommendation 2 was as follows:

The Board should move toward the reduction of alternative practices in accounting by adopting policies under which it will:

(a) Recognize the objective that variations in treatment of accounting items generally should be confined to those justified by substantial differences in factual circumstances

(b) Set forth in its Opinions the criteria for application of such acceptable variations

(c) In an Opinion dealing with a situation which the Board believes justifies alternatives even though there is no significant difference in factual circumstances, set forth the treatment to be preferred, and require disclosure of the treatment followed.

The Board has endorsed these proposals, noting that time will be needed for experimentation in a variety of situations before conclusions can be reached on specific problems.

Recommendation 3 concerns the composition and tenure of Board membership. Council has approved resolutions effecting changes including reduction in size of the Board (see *JofA*, June 65, p. 9). *Recommendation 4* called for a long-range planning program: The APB has established a planning subcommittee which has set priorities for production of Opinions and scheduled preliminary work on long-term projects.

The Board has taken several actions on *Recommendation 5*, which deals with the development and evolution of APB Opinions. It has agreed that its Opinions generally should be applicable to financial statements for fiscal periods starting after the date of the Opinion. At its first meeting each year, the Board will consider any suggestions for reconsideration of previously issued Opinions; AICPA members have been invited to sub-

mit such suggestions. The Board will experiment with issuing an annual "omnibus" Opinion; this would cover a number of unrelated, relatively minor subjects that would not justify a separate Opinion on their own.

Recommendation 6 proposed a continuing educational program to facilitate understanding and acceptance of Board Opinions among the accounting profession and related groups in industry and gov-

ernment. Through the administrative director of the Board, CPA Richard C. Lytle, liaison has been established with such key organizations as the Financial Executives Institute, the Financial Analysts Federation, the American Accounting Association, and a number of industry groups. As one indication of this increased communications effort, some 5,500 copies of exposure drafts of Opinions are now circulated.

Chairman Heimbucher reported on the latest APB developments. This is what he told Council...

The subcommittee scheme, adopted last year, is working very effectively (*The CPA*, May 66, p. 7). Under the scheme, the subcommittees are assigned responsibility for initial consideration of Board projects and, in the case of proposed Opinions, for the submission of "first drafts" of the Opinions to the Board.

The use of subcommittees for preparing first drafts permits more effective use of Board members' time and efforts. A new procedure, recently adopted by the Board, should further increase its effectiveness. Under this procedure, subcommittees prepare point outlines of the views they intend to propose for the Board's consideration. The Board informally discusses the outlines and then reaches tentative decisions for the guidance of the subcommittees preparing the first drafts. Experience thus far with the new procedure indicates that it is an effective way of directing attention to matters of substance early in the process of developing an Opinion. It appears likely that the new procedure will be a major factor in accelerating issuance of Board Opinions.

At its February meeting, the Board discussed point outlines on pensions, income and retained earnings, allocation of corporate income taxes and components of a

business enterprise, and at its April meeting, it considered first drafts of the subjects.

At the April meeting, the Board also considered a point outline of the proposed Omnibus Opinion (*The CPA*, Dec. 65, p. 8).

Subcommittees are currently drafting point outlines or first drafts on Opinions on price-level changes, treasury stock and the implications of the rate-making process in accounting by regulated industries which the Board will consider at its June meeting.

Although it is "dangerous" to predict just when any Board or committee will complete a particular project, the Board is maintaining the schedule set some months ago in all major respects and, as a result, expects to issue several more Opinions by the end of 1966.

Other than Opinion No. 7, "Accounting for Leases in Financial Statements of Lessors," which will be published this June, the proposed Opinion on income and retained earnings seems to be the farthest along. The Board expects to complete an exposure draft on the subject at its June meeting and to approve a ballot draft at its next meeting in the fall.

Although accounting for the cost of pension plans is one of the most difficult subjects to come to grips with, the Board has made substan-

tial progress in developing an Opinion on the topic. Much work remains to be done before an exposure draft is ready for release, but the prospects that this Opinion can parallel the schedule for the Opinion on income and retained earnings appear to be very good.

It is a basic premise of the Omnibus Opinion that it will deal only with subjects on which the Board can act quickly. Accordingly, this also appears to be an Opinion on which action can be expected during 1966. Another possible Opinion for 1966 is one on components of a business enterprise, which is also progressing satisfactorily.

In order to expedite matters, the Board has started working on the draft of an Opinion on allocation of corporate income taxes in parallel with the exposure phase of the accounting research study on the subject. Copies of a draft of the study were furnished to Board members, and the draft is being used as the basis for preliminary consideration of a comprehensive Opinion on the subject, including the question of balance sheet classification of tax allocation accounts related to installment receivables. The Board will allow ample opportunity for comments on the research study to be submitted before it attempts to complete preparation of an exposure draft. It hopes to do this before the end of 1966, but it is doubtful an Opinion will be issued before the spring of 1967. This Opinion will be followed in due course by Opinions on other subjects on the Board's agenda.

Financial accounting

The Board is making good progress in the development of three Opinions on the fundamentals of financial accounting to serve as a foundation upon which more specific pronouncements as to the application of accounting procedures may rest. A subcommittee completed a draft of the first of these Opinions — on the purposes and

characteristics of financial statements — which was discussed at the February meeting. The substance of another draft, to be prepared on the basis of this discussion and detailed comments submitted subsequently by individual Board members, was discussed at the April meeting.

In addition, the accounting research division has prepared background material on the second and third Opinions, dealing with basic concepts and broad accounting principles, which the subcommittee is now studying. Because of the interrelationship between these three Opinions, the Board does not plan to expose any of them until all three are pretty well worked out as to substance.

Industry and government

The Board recognizes the importance of obtaining the opinion and experience of industry groups, government agencies and teachers early in the development of proposed Opinions. Principally through its administrative director, the Board has been actively engaged in establishing more effective participation by them in its efforts to continue improvement in financial reporting.

At the present time, some fourteen industry and other groups have expressed an interest in co-operating with the Board and have either set up special committees to participate in the Board's program or are taking the necessary steps to participate effectively. The increase in the number of responses to the draft of Opinion No. 7 is indicative of the response of these organizations to our invitation to participate more actively.

The full impact of these co-operative efforts may not be felt for some time, partly because the co-operating organizations must necessarily experiment for a period to determine the operating methods best suited to their organizations for this purpose. However, they have made a good start and the benefits to be derived can be many.

EDP: problem or opportunity for CPAs? It's up to the individual or his firm

"The problems and opportunities of EDP will be with CPAs for many years and the knowledge and skill of the individual or his firm may well determine whether problem or opportunity is what is involved," Council was advised by Arthur B. Toan, Jr., chairman of the ad hoc committee on computers.

"An increasing number of members express concern and interest." But many, he added, "seem still to look upon EDP as a development to whose effects they will be immune."

"Taking the profession as a whole," he said, "one gains the impression that progress is being made."

As chairman of the computer committee, Mr. Toan outlined for Council the progress being made by the Institute in its computer program:

June 1965: Institute reaches an agreement with System Development Corporation to undertake a six-month research and educational project.

June through December 1965: SDC conducts a survey of firms and individual practitioners represented in the Institute membership to determine the nature of their present contact with computers, its effect on their firms' practices and their future plans to purchase or lease a computer or to use external data processing service bureaus.

January through April 1966: Sur-

vey results are prepared as special research reports by SDC and are published by the Institute and distributed to members.

January 1966: Institute signs a second contract with SDC. The new project will yield a report discussing the basic considerations an accounting firm should take into account in deciding whether it should provide computer services for its clients. The project is expected to be completed by this fall and the results made available to Institute membership soon thereafter.

One of the recommendations included in the long-range plan prepared at the conclusion of the first project was that the Institute give high priority to the problems of auditing EDP.

As a result, Mr. Toan said, President Trueblood, in March of this year, appointed a special working task force with substantial experience in this area.

The task force is headed by Professor Gordon Davis of the University of Minnesota who will also serve the Institute as a computer consultant for the next fifteen months.

One of Professor Davis' assignments as consultant will be to recruit a permanent staff for the Institute which will continue to advise on computer and educational programs after he returns to the University in September 1967.

Federal government . . . committee has 18 components (consulting committees and consultants); notes trend involving expanded federal use of accountants in programs involving "social welfare" legislation (Medicare, anti-poverty) and feels that AICPA testimony in public service areas is useful; feels that co-operation of independent auditors in assisting federal financial control over social welfare programs is appropriate and is an essential element of the profession's desire to be active in public service areas.

Notice of Seventy-ninth Annual Meeting American Institute of Certified Public Accountants October 3, 1966

To the Members of the
American Institute of Certified
Public Accountants:

In accordance with the provisions of Article XIV, Section 3, of the By-Laws of the American Institute of Certified Public Accountants, I hereby give notice that the regular annual meeting of the American Institute of Certified Public Accountants will be held at

the Sheraton-Boston Hotel, Boston, Massachusetts, beginning at 9:00 A.M., on Monday, October 3, 1966.

In accordance with the provisions of Article XII, Section 1(a), of the By-Laws, the following report of the committee on nominations is submitted to members of the American Institute of Certified Public Accountants.

In accordance with the provisions of Article XV, Section 4, of

the By-Laws, there are also submitted to the membership proposed amendments to the Institute's By-Laws and Code of Professional Ethics which have been approved by the Council.

JOHN L. CAREY
Executive Director

New York, N. Y., June 1, 1966

Report of the Committee on Nominations

The committee on nominations hereby nominates the following for officers and members of Council of the American Institute of Certified Public Accountants:

FOR OFFICERS

President

Hilliard R. Giffen, Calif.

Vice Presidents

George D. Anderson, Mont.
John P. Goedert, Ill.
Ralph E. Kent, N. Y.
E. C. Leonard, Jr., Okla.

Treasurer

David F. Linowes, N. Y.

For Council Members at Large

(Three-year terms)

Horace G. Barden, Ill.
Maurice J. Dahlem, Calif.
Ralph F. Lewis, N. Y.
Herbert E. Miller, Mich.
Walter R. Staub, N. Y.
Marvin L. Stone, Colo.
Kenneth B. Wackman, N. Y.

For Members of Council

(Three-year terms)

James E. Money, Ala.
Donald A. Brunell, Ariz.
Percey W. Pogson, Jr., Ariz.

Harold M. Berlfein, Calif.
Gerald R. Case, Calif.
Jack J. Dreiman, Calif.
J. Wesley Huss, Calif.
Herman E. Ward, Calif.
Gordon W. Tasker, Conn.
Claude M. Hamrick, Jr., Ga.
Robert W. Baltz, Ill.
Glenn Ingram, Sr., Ill.
Halbert A. Schussele, Ill.
Quentin H. Covert, Ind.
E. F. Volberding, Ia.
Don F. Gresser, Kans.
Joseph P. Jones, Jr., Ky.
W. Kenneth Simpson, Ky.
Sidney A. Champagne, La.
S. Howard Phipps, Md.
Lewis M. Foster, Mass.
Morris Goodman, Mass.
William R. Shaw, Mich.
Leonard E. Richardson, Mo.
Ralph T. Bartlett, N. J.
Edwin T. Boyle, N. J.
Arthur L. Breakstone, N. J.
Nathan Honig, N. J.
Kermit J. Beryson, N. Y.
James J. Needham, N. Y.
William D. Sprague, N. Y.
William P. Stowe, N. Y.
William H. Westphal, N. C.
William A. Jacoby, Ohio
Stanley D. Ferst, Pa.
George T. Helm, R. I.
H. Landrith Thomas, Tenn.
Gordon N. George, Texas
Stanley J. Scott, Texas
Donald L. Schoedel, Wash.

The committee will nominate the following for members of Council on the floor of the annual meeting on Monday, October 3, 1966, to fill vacancies created by the election of officers, the death of a Council member, and the absence from three consecutive meetings of a Council member:

For Council Members at Large

(Two-year terms)

George H. Hansen, Ia.
Harry C. Zug, Pa.

For Members of Council

(One-year terms)

Anthony Gerharz, Jr., Mont.
Richard S. Helstein, N. Y.
Dudley C. Tetro, N. H.
Joseph E. Tansill, Ill.

Each of the nominees has expressed his willingness to serve if elected. The list of nominations has the approval of all members of the committee on nominations.

Respectfully submitted,

Thomas D. Flynn,
Chairman
Ernest A. Berg
Charles Bennett
Carl Lipoff
Robert J. Murphey
Lawrence J. Scully
Kenneth L. Thompson

May 15, 1966

Proposed Amendments to the By-Laws

Council has approved for discussion by the members present at the annual meeting, but not for action, the following proposed amendments to the By-Laws. Under the provisions of Article XV, Section 5, of the By-Laws, following the annual meeting the proposed amendments will be submitted to all members for a vote by mail:

Proposal No. 1

To provide for the automatic suspension from Institute membership of a member whose CPA certificate has been suspended for disciplinary cause or who has been convicted of a felony or other serious crime; and for automatic termination of the membership of a member when his CPA certificate has been revoked for disciplinary cause or when his conviction has become final; and

To provide for reinstatement, in the discretion of the Trial Board, after a lapse of three years, of a member whose membership has been terminated for disciplinary reasons; and

To require a member to co-operate with the ethics committee in its investigation of complaints (that is, to require a member to answer communications from the committee within thirty days or render himself liable to disciplinary action).

To give effect to this recommended change it is proposed that Article V and Article VI of the By-Laws be amended, as follows:

Change Article V (proposed additions are in italics) to read in its entirety as follows:

Section 1. Resignations of members or associates may be offered in writing at any time and shall be effective on the date of acceptance. Action upon the resignation of a member or associate in good standing shall be taken by the executive committee. ~~and, in the case of a member or associate under~~

~~charges, by the Trial Board or a sub-board appointed to hear the case. No action shall be taken on the resignation of a member or associate with respect to whom possible charges are under investigation by the committee on professional ethics. Action upon the resignation of a member or associate against whom charges are pending to be heard by the Trial Board or a sub-board shall be taken by the Trial Board or the sub-board appointed to hear the case. Action upon the resignation of a member or associate who is suspended under Article V, Section 6(a) or (c) shall be taken by the Trial Board or by an ad hoc committee thereof consisting of at least five members appointed by the chairman of the Trial Board or vice chairman, when acting as chairman.~~

Section 2. A member or associate who fails to pay his annual dues or any subscription, assessment, or other obligation to the Institute within five months after such debt has become due shall automatically cease to be a member or associate of the Institute, unless in the opinion of the executive committee it is not in the best interests of the profession that his membership or affiliation be terminated in this way.

Section 3. (a) A member or associate who shall resign while in good standing may, upon request made in writing to the Institute, be reinstated by the executive committee without a reinstatement fee.

(b) The executive committee, in its discretion, may reinstate a member or an associate whose membership or affiliation has been terminated for nonpayment of dues or any other obligation owing by him to the Institute, provided that his reinstatement shall not become effective until he shall have paid to the Institute all dues and other obligations owing by him to it at the time of such termination, and shall also have paid to it a reinstatement fee in such amount, if any, as shall have been determined

by a general resolution of the Council.

(c) No person shall be considered to have resigned while in good standing if at the time of his resignation he was in debt to the Institute for dues or other obligations. A member or associate submitting his resignation after the beginning of the fiscal year, but before expiration of the time limit for payment of dues or other obligations, may attain good standing by paying dues prorated according to the portion of the fiscal year which has elapsed, provided obligations other than dues shall have been paid in full.

(d) A member or associate who has resigned or whose membership or affiliation has been terminated in any manner may not file a new application for admission but may apply for reinstatement under the applicable provision of paragraph (a) or (b) of this section, or Article VI, Section 5(b) or (c).

Section 4. A member or associate renders himself liable to expulsion or suspension by the Trial Board or a sub-board thereof if

(a) he refuses or neglects to give effect to any decision of the Institute or of the Council, or

(b) he infringes any of these By-Laws or any provision of the Code of Professional Ethics, or

(c) he is declared by a court of competent jurisdiction to have committed any fraud, or

(d) he is held by the Trial Board or a sub-board thereof to have been guilty of an act discreditable to the profession, or to have been convicted of a criminal offense which tends to discredit the profession, or

(e) he is declared by any competent court to be insane or otherwise incompetent, or

(f) his certificate as a certified public accountant ~~is suspended, revoked or withdrawn by the authority of any state, territory, or territorial possession of the United States or the District of Columbia. However, should the secretary of the Institute be of the opinion that it may be in the best interest of the~~

Institute to terminate, without trial, the membership of a member or the affiliation of an associate whose certificate has been so suspended, revoked or withdrawn, the secretary shall refer the matter to the executive committee. In such event, the executive committee may terminate, without trial, such membership or affiliation, if it determines that it is in the best interest of the Institute to do so or license or permit to practice as such or to practice public accounting is suspended, revoked, withdrawn or cancelled as a disciplinary measure by any governmental authority, or

(g) he fails to co-operate with the committee on professional ethics in its efforts to ascertain the facts pertaining to whether such member or associate is subject to disciplinary action pursuant to the By-Laws of the Institute. Accordingly, a member or associate shall respond to communications from the committee requesting information as to such facts within thirty days of the mailing of such communications by registered mail, postage prepaid, addressed to the member or associate concerned at his last known address, according to the records of the Institute.

Section 5. A member or associate shall be expelled if the Trial Board or a sub-board thereof finds, by a majority vote of the members present and entitled to vote, that he has been convicted by a court of ~~a felony or other crime or misdemeanor involving moral turpitude~~ any of the criminal offenses set forth in Article V, Section 6(a), or any crime involving moral turpitude; provided, in the case of such a finding by a sub-board, its finding in this respect is not reversed by the Trial Board. ~~If the court conviction shall be reversed by a higher court, such member or associate may request reinstatement, and such request shall be referred to the committee on professional ethics which, after investigating all related circumstances, shall report the matter, with the committee's recommendation, to~~

~~the Trial Board, with respect to cases heard initially by it and cases heard by it on review of a decision of a sub-board and to the sub-board which heard the case, with respect to cases heard by such sub-board in which no request for review has been granted. Whereupon the Trial Board or sub-board, as applicable, may by a majority vote of the members present and entitled to vote, reinstate such member or associate.~~

Section 6. (a) The membership or affiliation of a member or associate who is convicted by a court of any of the following criminal offenses: a crime which is defined as a felony under the laws of the convicting jurisdiction; willfully failing to file any income tax return which he, as an individual taxpayer, is required to file under the law; willfully attempting to evade or defeat any income tax, or the payment thereof, by filing a false and fraudulent income tax return on behalf of himself or a client; or willfully aiding in the preparation or presentation of a false and fraudulent income tax return of a client; shall become automatically suspended upon mailing a notice of such suspension, as provided in paragraph (e) of this section. Such notice shall be mailed within a reasonable time after a certified copy of a judgment of conviction of such criminal offense has been filed with the secretary of the Institute.

(b) The membership or affiliation of a member or associate who has been convicted by a court of any of the offenses set forth in paragraph (a) of this section, and which conviction has become final, shall become automatically terminated upon mailing a notice of such termination, as provided in paragraph (e) of this section. Such notice shall be mailed within a reasonable time after a certified copy of such conviction and evidence that it has become final has been filed with the secretary of the Institute.

(c) The membership or affiliation of a member or associate

whose certificate as a certified public accountant or license or permit to practice as such or to practice public accounting has been suspended as a disciplinary measure by any governmental authority shall, except as provided in paragraph (f) of this section, become automatically suspended upon the expiration of thirty days after mailing a notice of such suspension, as provided in paragraph (e) of this section. Such notice shall be mailed within a reasonable time after a statement of such governmental authority, showing that such certificate, license or permit has been suspended and specifying the cause and duration of such suspension has been filed with the secretary of the Institute. Such automatic suspension shall cease upon the expiration of the period of suspension so specified.

(d) The membership or affiliation of a member or associate whose certificate as a certified public accountant or license or permit to practice as such or to practice public accounting has been revoked, withdrawn or cancelled as a disciplinary measure by any governmental authority shall, except as provided in paragraph (f) of this section, become automatically terminated upon the expiration of thirty days after mailing a notice of such termination, as provided in paragraph (e) of this section. Such notice shall be mailed within a reasonable time after a statement of such governmental authority showing that such certificate, license or permit has been revoked, withdrawn or cancelled and specifying the cause of such revocation, withdrawal or cancellation has

By-Laws proposal No. 1
would provide for
automatic suspension
and termination . . .

been filed with the secretary of the Institute.

(e) Notices of suspension or termination pursuant to paragraph (a), (b), (c) or (d) of this section shall be signed by the secretary of the Institute and mailed by registered mail, postage prepaid, addressed to the member or associate concerned at his last known address according to the records of the Institute.

(f) The operation of paragraph (c) or (d) of this section shall become postponed if, within thirty days after mailing the notice of suspension or termination, the secretary of the Institute receives a request from the member or associate concerned that the pertinent provision shall not become operative. The request shall state briefly the facts and reasons relied upon. All such requests shall be referred to the Trial Board for action thereon by the Trial Board or by an ad hoc committee thereof consisting of at least five members appointed by the chairman of the Trial Board or vice chairman, when acting as chairman.

If the request is denied, the suspension or termination, as the case may be, shall become effective upon such denial, and the member or associate concerned shall be so notified in writing by the secretary. No appeal to the Trial Board shall be allowable with respect to a denial of such a request by the ad hoc committee.

If the request is granted, the suspension or termination, as the case may be, shall not become effective. In such event, the secretary shall transmit the matter to the committee on professional ethics to take whatever action it considers proper in the circumstances.

A determination that paragraph (c) or (d) of this section shall not become operative shall be made only when it clearly appears that, because of exceptional or unusual circumstances, it would be inequitable to permit such automatic suspension or termination.

(g) When a membership or affili-

ation is suspended or terminated under paragraph (a), (b), (c) or (d) of this section, a statement of such suspension or termination, giving the reasons therefor, shall be published in The CPA. Such statement shall be in a form approved by the chairman of the Trial Board or the vice chairman when acting as such, and shall disclose the name of the member or associate concerned unless the chairman or vice chairman decides that the name be omitted.

(h) The provisions of this section shall not preclude the summoning of the member or associate concerned to appear before the Trial Board or a sub-board pursuant to Article VI, nor shall it preclude the imposition of any penalty under Article V, Section 5, or Article VI, Section 3(b), unless his membership or affiliation has been terminated pursuant to paragraph (b) or (d) of this section.

(i) The period of suspension pursuant to paragraph (a) or (c) of this section shall not be counted in computing the period of not more than two years, for which the Trial Board or a sub-board may suspend a member or associate under Article VI, Section 3(b).

Section 6. 7. The Council may, in its discretion, terminate the affiliation of an international associate.

Section 8. (a) The provisions of Article V, Sections 4, 5 and 6 and Article VI, Section 1, which became effective on [date of adoption by members] shall not be applied retroactively to any offense or wrongful conduct occurring prior to such effective date regardless of the date of judgment of conviction or order of a govern-

... reinstatement and co-operation

mental authority based upon such offense or wrongful conduct. Any such offense or wrongful conduct shall be punishable under the pertinent By-Law provisions which were in effect immediately prior to such effective date. Such By-Law provisions are continued in effect for this purpose.

(b) The provisions of Article V, Section 3(d) and Article VI, Section 5(b) and (c) which became effective on [date of adoption by members] shall apply retroactively as well as prospectively.

(c) The provisions of Article V, Section 1, which became effective [date of adoption by members] shall apply after such effective date to any resignation, regardless of when submitted.

Change Article VI (proposed additions are in italics) to read in its entirety as follows:

Section 1. Any complaint preferred against a member or associate under Section 4 or 5 of Article V shall be submitted to the committee on professional ethics. If, upon consideration of a complaint, it appears to the committee that a prima facie case is established showing a violation of any By-Law or any provision of the Code of Professional Ethics or conduct discreditable to a public accountant, the committee on professional ethics shall report the matter to the secretary of the Institute, who shall summon the member or associate involved thereby to appear in answer at the next meeting of the Trial Board or any sub-board appointed to hear the case; ~~except that in any case involving a prima facie showing of violation of Article V, Section 4, paragraph (f), he may, in his discretion, submit the matter to the executive committee. In the event of such submittal, the executive committee shall either terminate the membership or affiliation of such member or associate pursuant to Article V, Section 4, paragraph (f) or summon him to appear in answer at the next meeting of the Trial Board or any sub-board appointed to hear the case.~~

provided, however, that with respect to a case falling within the scope of Article V, Section 6, such committee shall have discretion as to whether and when to report the matter to the secretary for such summoning.

Section 2. If the committee on professional ethics shall dismiss any complaint preferred against a member or associate, or shall fail to act thereon within ninety days after such complaint is presented to it in writing, the member or associate preferring the complaint may present the complaint in writing to the Trial Board; *provided, however, that this provision shall not apply to a case falling within the scope of Article V, Section 6.*

The Trial Board shall make such investigation of the matter as it may deem necessary, and shall either dismiss the complaint or refer it to the secretary of the Institute, who shall summon the member or associate involved thereby to appear in answer at the next meeting of the Trial Board or any sub-board appointed to hear the case.

Section 3. For the purpose of adjudicating charges against members or associates of the Institute, as provided in the foregoing sections:

(a) The secretary of the Institute shall mail to the member or associate concerned, at least thirty days prior to the proposed meeting of the Trial Board, or any sub-board appointed to hear the case, written notice of the charges to be adjudicated. Such notice, when mailed by registered mail, postage prepaid, addressed to the member or associate concerned at his last known address, according to the records of the Institute, shall be deemed properly served.

(b) After hearing the evidence presented by the committee on professional ethics or other complainant, and by the defense, the Trial Board or sub-board hearing the case, by a majority vote of the members present and voting, may admonish or suspend, for a period of not more than two years, the

***By-Laws proposal No. 2
would increase
the size of
the executive committee***

member or associate against whom complaint is made, or by a two-thirds vote of the members present and voting, may expel such member or associate. The Trial Board or sub-board hearing the case shall decide, by a majority vote of the members present and voting, whether the statement of the case and the decision to be published shall disclose the name of the member or associate involved. A statement of the case and the decision of the Trial Board or sub-board hearing the case shall be prepared by a member or members of the Trial Board or the sub-board, as the case may be, under a procedure to be established by such Trial Board or sub-board, and the statement and decision, as released by the Trial Board or sub-board, shall be published in *The CPA*. No such publication shall be made until such decision has become effective, as hereinafter provided.

(c) The member or associate concerned in a case decided by a sub-board may request a review by the Trial Board of the decision of the sub-board, provided such a request for review is filed with the secretary of the Trial Board at the principal office of the Institute within thirty days after the decision of the sub-board, and shall file with such request such information as may be required by the rules of the Trial Board. Such a review shall not be a matter of right. Each such request for a review shall be considered by an ad hoc committee to be appointed by the chairman of the Trial Board, or its vice chairman in the event

of his unavailability, and composed of not less than five members of the Trial Board who did not participate in the prior proceedings in the case. The ad hoc committee shall have power to decide whether or not such a request for review by the Trial Board shall be allowed, and such committee's decision that such a request shall not be allowed shall be final and subject to no further review. A quorum of such an ad hoc committee shall consist of a majority of those appointed. If such a request for review is allowed, the Trial Board shall review the decision of the sub-board in accordance with its rules of practice and procedure. On review of such a decision the Trial Board may affirm, modify, or reverse all or any part of such decision or make such other disposition of the case as it deems appropriate. The Trial Board may by general rule indicate the character of reasons which may be considered to be of sufficient importance to warrant an ad hoc committee granting a request for review of a decision of a sub-board.

(d) Any decision of the Trial Board, including any decision reviewing a decision of a sub-board, shall become effective when made, unless the Trial Board's decision indicates otherwise, in which latter event it shall become effective at the time determined by the Trial Board. Any decision of a sub-board shall become effective as follows:

(i) Upon the expiration of thirty days after it is made, if no request for review is properly filed within such thirty-day period;

(ii) Upon the denial of a request for review, if such a request has been properly filed within the thirty-day period and has become denied by the ad hoc committee; and

(iii) Upon the effective date of a decision of the Trial Board affirming the decision of a sub-board in cases where a review has been granted by the ad hoc

Ethics proposal No. 1
would repeal
the competitive
bidding rule

committee, and the Trial Board has affirmed the decision of such sub-board.

Section 4. At any time after the publication in *The CPA* of a statement of the case and decision, the Trial Board may, with respect to a case heard by it, initially or on review of a decision of a sub-board, and the sub-board may, with respect to a case heard by it in which its decision has become effective without a review by the Trial Board, by a two-thirds vote of the members present and voting, recall, rescind, or modify such expulsion or suspension, a statement of such action to be published in *The CPA*.

Section 5. (a) Should a judgment of conviction or an order of a governmental authority on which the suspension or termination of membership or affiliation of a member or associate was based under Article V, Section 6(a), (b), (c) or (d) be reversed or otherwise set aside or invalidated, such suspension shall terminate or such member or associate shall become reinstated, when a certified copy of the order reversing or otherwise setting aside or invalidating such conviction or order is filed with the secretary of the Institute.

(b) A member or associate who has been suspended or expelled pursuant to Article V, Section 4(c), (d), (e) or (f), or expelled pursuant to Article V, Section 5, may request that the suspension terminate or request reinstatement if the judgment of conviction, the order in finding of court or the order of the governmental authority, on which the suspension or expulsion was based, has been re-

versed or otherwise set aside or invalidated. Such request shall be referred to the committee on professional ethics which, after investigating all related circumstances, shall report the matter, with the committee's recommendation, to the Trial Board. Whereupon the Trial Board may, by a majority vote of the members present and entitled to vote, terminate the suspension or reinstate such member or associate, after according him such hearing, if any, as may be appropriate.

(c) Except as provided in paragraphs (a) and (b) of this section, a member or associate whose membership or affiliation has been automatically terminated under Article V, Section 6(b) or (d), or who has been expelled by the Trial Board or a sub-board, or whose resignation has been accepted by the Trial Board, an ad hoc committee thereof or a sub-board, may, at any time after three years from the effective date of such termination, expulsion or acceptance of resignation, request reinstatement of his membership or affiliation. Such request shall be referred to the committee on professional ethics, which, after investigation, shall report the matter, with the committee's recommendation, to the Trial Board. Whereupon the Trial Board may reinstate such member or associate on such terms and conditions as it shall determine to be appropriate. If an application for reinstatement under this paragraph is denied, the member or associate concerned may again apply for reinstatement at any time after two years from the date of such denial.

Proposal No. 2

To increase the size of the executive committee from thirteen to sixteen by adding to its membership the immediate past president and two additional members or former members of Council.

To give effect to this recommended change it is proposed that Article IX, Section 2, paragraph

(b), of the By-Laws be amended to read in its entirety as follows:

The executive committee shall consist of the president, the four vice presidents, the treasurer, the immediate past president, and nine other members or former members of the Council who shall be elected by the Council. Of the nine members to be so elected in 1967, three shall serve for one year, three for two years, and three for three years, or until their successors have been elected. Thereafter, beginning in 1968, the Council shall annually elect three members to serve for three years, or until their successors have been elected. Vacancies occurring among the elected members shall be filled by the Council for the unexpired terms. No elected member who has served for a full three-year term shall be eligible for reelection until the annual meeting of the Institute next following completion of his term of service. Seven members shall constitute a quorum of the committee.

Proposed Amendment to the Code of Professional Ethics

Council has approved for discussion by the members present at the annual meeting, but not for action, the following proposed amendment to the Code of Professional Ethics. Under the provisions of Article XV, Section 5, of the By-Laws, following the annual meeting the proposed amendment will be submitted to all members for a vote by mail.

Proposal No. 1

To repeal Article 3, Section 3.03, of the Code of Professional Ethics, which reads as follows:

3.03 A member or associate shall not make a competitive bid for a professional engagement. Competitive bidding for public accounting services is not in the public interest, is a form of solicitation, and is unprofessional.

To renumber Section 3.04 as Section 3.03.



FROM THE
PRESIDENT
ROBERT M. TRUEBLOOD

The Common Body of Knowledge

WHEN I assumed the presidency of the Institute last October I spoke with you of "The Urgency of Opportunity." I said then, "We have much to do to prepare ourselves for change and for the role we will play in the future."

Before I step down from the presidency this October, I hope to see published "The Common Body of Knowledge for Certified Public Accountants." The Common Body tells the accounting profession what we must do to prepare ourselves for change and for the role we will play in the future. It characterizes the kind of CPA who will not only survive, but thrive in the ever-increasingly complex world of business that is fast coming upon us.

The prospectus given to the 11-man advisory commission by the American Institute at the inception of the study, three years ago, suggested that the report identify the common body of knowledge that would enable the beginning CPA (1) to serve his clients competently and (2) to grow with the profession.

The directors and the commission had no intention of focusing on a body of knowledge which would be needed at a specific point in time. Rather, regarding the professional accountant as viable, as being able to grow and develop as circumstances dictate, the commission concerned itself with the knowledge and qualities needed for growth.

The commission was well aware that all over the United States millions of dollars are being spent on research looking toward the

decades ahead, and that because of the computer's almost limitless facility, the information professions are in for a future of almost limitless change. The growth of operations research since World War II is but one example of how the computer has helped to change business science.

The report, which represents the conclusions of its director, Dean Robert H. Roy, and his assistant, Professor James H. MacNeill, therefore, does not set forth an itemized common body of knowledge as of a point of time, nor does it specify a suggested curriculum. Rather, it hopefully projects its usefulness into the challenging future.

I believe that the directors and the commission developed a common body of knowledge for CPAs that is broad in scope—yet definitive in that it describes and exemplifies the kinds of knowledge that will be required of us. I believe that the commission looked creatively and imaginatively, yet realistically, into the kinds of financial reporting and information that will serve the business world of the future. I believe that they delineated knowledgeably the characteristics of the CPA who will live comfortably in the environment of several years from now.

The precedents

The Common Body follows by ten years two other reports which had great significance to business education directly, and to the business world indirectly — the Pierson report, sponsored by the Ford Foundation, and the Gor-

don and Howell report, sponsored by the Carnegie Foundation. These two reports triggered a revolution, especially in graduate schools of business, which is paying handsome dividends today in the quality of young executives.

Hopefully, the Common Body, which had substantial financial and intellectual support from the Carnegie Foundation, will accomplish for the accounting profession what these two reports did for business education.

I recommend that the information in the Common Body be disseminated in the same manner as were the suggestions in the Pierson and Gordon and Howell reports — by a series of high-level seminars at universities around the country.

I also recommend that the Institute and the state societies sponsor regional seminars to impart the philosophy contained in the Common Body. I hope that the American Accounting Association will participate in, or jointly sponsor, such programs.

Contributions from outside

The report is significant for more than one reason. For the first time in the history of the accounting profession, outstanding men from outside the profession have contributed materially of their time and knowledge to help formulate a penetrating analysis of professional accounting.

Such men who served on the commission under the chairmanship of Elmer G. Beamer include:

Phillip West, Vice President, New York Stock Exchange

Dean Courtney Brown, Graduate School of Business, Columbia University

Dean Charles E. Johnson, College of Arts, University of Oregon
Henry P. Hoffstot, Jr., partner,

Reed, Smith, Shaw & McClay, and a member of American Law Institute

The late Milton Drake, Senior Vice President, Detroit Bank & Trust Company.

What effect will the Common Body have on the profession?

First, the study should serve as a prod to enrich further the Institute's and state societies' professional development programs.

Second, there will be a "re-treading" effect. That is, many practitioners will realize the necessity for studying new and different concepts while relying, in the process, on the fundamental disciplines in which they were trained.

Third, there will be an obvious impact on accounting curriculums. I believe the study is most wise in not recommending specific batteries of courses because, as it points out, "prescriptive syllabi" would "place upper bounds

upon the possession of knowledge by CPAs" and result in "topical compliance" at the possible cost of intellectual shallowness.

Fourth, it should result in an enlargement of research activity not, as the study points out, "by diminishing or altering current relationships, but by augmenting them with sponsored research, wherein candidates and their faculty may receive appropriate support for engagement in research projects paid for by the sponsors."

I personally feel that sponsored research is one of the important keys to the growth of the profession. I agree with the study when it says that "sponsored research devoted to 'action problems' in the 'real world' can bring to accounting the essential quality of reality not capable of simulation in academic institutions."

And we should "augment the present meager efforts in 'clinical' research in accounting, thereby yielding additional inductive knowledge." The yields to sponsors could be so sufficiently large as to more than cover research costs.

I believe the profession has an obligation to make use of the study.

Council last month heard a report on the Common Body, and the profession will have the opportunity to become more familiar with its contents at the annual meeting in Boston. It is scheduled for publication this fall. My purpose here has been to tell you what I feel the significance of the report is and what its implications are for the profession.

By making full use of the Common Body, I believe that the profession will have come a long way in meeting the urgency of opportunity.

CPA

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***Auditing procedure
committee actions***

The committee on auditing procedure, at its June meeting, (1) approved the revised standard bank confirmation form developed in co-operation with NABAC (The Association for Bank Audit, Control and Operation), (2) reviewed and revised drafts of proposed statements dealing with "Interpretation of 'Extensions of Auditing Procedure' Relating to Inventories," "Unaudited Statements," and "A Special Report on Internal Controls and Auditing Procedures Concerning Goods Stored in Public Warehouses" and (3) appointed a subcommittee to consider common problems of compliance reporting and to develop appropriate guidelines.

***Warehouse study
out for exposure***

On June 28, the committee on auditing procedure sent out for exposure to state society and chapter committees a proposed statement on auditing procedure dealing with the internal control of the warehouseman and the procedures of the independent auditor with respect to goods in custody of the warehouse. After comments from interested parties have been received and reviewed, the statement will be published — probably in early October.

***Bankers and CPAs
conference date set***

The first meeting of the National Conference of Bankers and CPAs has been scheduled for September 9 in New York City. Recently named as conference co-chairmen are John L. Hennessy (AICPA) and Edward F. Gee (American Bankers Association) for the Section on Financial Reporting of Borrowers, and Eugene L. Larkin (AICPA) and Edward T. Shipley (ABA) for the Section on Bank Accounting and Auditing.

***New Institute film
nearing completion***

Inc., the new Institute educational film, is scheduled for completion this month. When a pilot version of the film was shown to a panel of viewers in June, it was described as "colorful," "realistic," and as creating a "favorable but balanced impression of CPAs and their role in developing and auditing the information system used by managers and stockholders." The film is intended to be used as a curriculum aid in college preparatory social studies classes.

***Annual meeting
speakers***

Roy Ash, president of Litton Industries, and Manuel F. Cohen, chairman of the Securities and Exchange Commission, will be key speakers at the Institute's annual meeting in Boston (October 2-5). Full details of the meeting, as well as registration and hotel forms, are included in a special mailing now on its way to members.

***Taxes and Las Vegas:
Labor Day weekend***

Why not get the benefit of a full week of tax instruction — and then enjoy Labor Day weekend — both at the Sands Hotel in Las Vegas? The Institute's professional development division is first offering "Tax Lecture Series," August 29-30, and then "Estate Planning," August 31-September 2. Arrangements can be made through the AICPA PD office.

Accounting for Medicare

PROPOSED cost principles governing reimbursement under the new Medicare program, which were to become effective July 1, were published in the Federal Register, June 2, 1966. Earlier drafts were delayed by objections raised in the Senate. (A summary of the current proposals appears in the July *Journal of Accountancy*, page 18.)

As *The CPA* goes to press, general audit requirements for "provider" cost reports have just come to hand (Bureau of Health Insurance Intermediary Letter No. 38, June 6, 1966, reprinted on pages 3-4 of this *CPA*). Audit programs, instructions and forms of auditors' reports or "certificates" have been drafted. Late in June an Institute task force had an opportunity to confer with the Social Security staff on certain of these matters. This was a start, but there are still many unresolved problems.

The multi-billion dollar Medicare program, therefore, went into effect in a somewhat tentative atmosphere, so far as the all-important financial controls are concerned. This is not the fault of the hard-pressed Social Security staff, who have knocked themselves out over a period of many months in an effort to meet the deadlines. The fact is that this vast new program is incredibly complex, and the volume and variety of transactions to be accounted for stagger the imagination.

Certified public accountants will almost certainly be involved in Medicare on a large scale.

In the first place, hospitals, nursing homes and other "providers" (as they are called in the regulations) will have to adapt, expand or reconstruct their own accounting systems to provide the cost information required for reimbursement. Providers will be required to segregate charges attributable to patients eligible for Medicare, since the distribution of costs to such patients will be based upon charges made to them as they relate to charges to all patients.

Claims for reimbursement will be certified either by a "provider's" official or by a "public accountant," according to an early tentative draft of a form for this purpose. The public accountant apparently may be either a CPA or a licensed public accountant or neither. The form of "certificate" which appeared on this form required the signer to "certify" that the stated costs were "correct." A CPA might feel that he could not sign such a statement without checking every transaction, and this would be very costly, as compared with testing and sampling techniques.

Reimbursement of costs will be made by "intermediaries" — mostly Blue Cross organizations and some insurance companies. They will be required to audit, presumably on site, the claims by "providers," although disbursements may be made prior to audit. According to BHI Letter No. 38 the intermediaries' audits may be made by their own accounting staffs or by public accountants retained for the purpose.

Intermediaries' auditors must express an opinion whether, in all material respects, the cost report for the period represents fairly the costs incurred, in conformity with generally accepted accounting prin-

ciples consistently applied and also in accordance with the cost principles issued by the Social Security Administration.

The extent to which a CPA firm engaged by an intermediary may rely on "certification" of costs by a CPA firm acting as independent auditor for a provider is unclear, although the phrases "in all material respects" and "presents fairly" suggest that discretion may be used in this respect. (Rule 2.01 of the Institute's Code of Ethics permits reliance on other auditors, in part, under specified conditions.)

A question has been raised as to whether an independent auditor of the financial statements of a provider may properly audit reimbursable costs of the same provider on behalf of the intermediary, in view of a possible conflict of interest. Yet a CPA firm familiar with a hospital's system and procedures may be able to audit the costs for the intermediary more economically than anyone else. The Institute's ethics committee sees nothing improper in a member's serving in both capacities.

The intermediaries naturally are accountable to the Social Security Administration for the funds disbursed. The Audit Agency, DHEW, will appraise the effectiveness of intermediaries' audits, and will require access to work papers for this purpose. The General Accounting Office will probably have to satisfy itself, on behalf of Congress, that the accounting and auditing safeguards are adequate.

One CPA has humorously suggested that the accounting and auditing expense under Medicare may be greater than the cost of benefits to patients. While this is hardly likely, it is possible that the mountains of paper work and the manhours of auditing may cost so much as to constitute a major

burden on the program — and possibly an object of Congressional inquiry a year or two hence.

On the other hand, the opportunities for waste, error, and even abuse under this program are obvious and formidable. Some of these will inevitably occur in the beginning, despite all precautions. Yet the responsible agencies will naturally try to protect themselves against Congressional criticism by closing every conceivable loophole. This may result in an effort to put responsibilities on independent auditors which cannot be discharged except at heavy cost.

The problem here — as in the field of auditing generally — is to relate the cost of protection to the magnitude of risk of loss. This requires a degree of flexibility and discretion at all levels. Rigid re-

quirements for detailed verification — whether by staff employees or independent auditors — could weigh down the program.

Without some general understanding of the inherent limitations on all those concerned with the financial controls of such a massive new venture, there may be headline scandals, charges and recriminations, Congressional inquiries, and victimization of many well-meaning, hard-working people who may be singled out as examples.

The Institute's task force is trying to help the Social Security staff in resolving these problems.

Certified public accountants, as members of an independent profession serving the public, must do all they can to make the Medicare program work — both as individuals, and through their pro-

fessional societies. At the same time, they should be aware of the risks involved. If they are acting, in effect, as accountants or controllers for hospital clients — doing the internal work — they should make sure they will be regarded as independent if they also certify costs as public accountants for reimbursement on behalf of these clients. As auditors for providers or intermediaries they should sign no "certificates" which they are not prepared to justify on the witness stand. In all relations with the Medicare program CPAs would do well to exercise that "anticipatory hindsight" which the late Saul Levy so prophetically recommended. But they should also continually urge the most economical procedures consistent with relative risk in the safeguarding of the public funds.

SSA issues Medicare audit requirements and guidelines

"Selected audit requirements and guidelines applicable to annual cost report forms of providers for reasonable costs under Parts A and B of Title XVIII, Public Law 89-97."

Audit program: General

1. The Social Security Administration will design and develop the required cost report forms for determining and apportioning "reasonable costs" for providers. SSA will also formulate and provide audit instructions and guidelines, approved by the Audit Agency, the Department of Health, Education and Welfare, for the annual verification of these cost report forms.

2. The Social Security Administration will reimburse the intermediary for its appropriate share of the cost of audit services. This will apply to such services as furnished by or arranged for by the intermediary to verify costs reported by the provider under Parts A and B of the program.

3. Any agreements between an intermediary and an independent firm engaged for audit purposes should include these requirements along with other appropriate conditions:

(a) The audit shall be independent. It shall be made in accordance with generally accepted auditing standards applicable in the circumstances. Such an audit must meet at least the minimum requirements of instructions furnished by the Social Security Administration concerning the audits of provider costs. (The audit will not be deemed independent with respect to any provider in which any partner or officer of the auditing firm has any interest, either direct or indirect. Moreover, the audit is not to be considered independent if during the period covered by the audit any partner or officer of the audit firm is or was serving as an officer or employee of the provider.)

(b) The audit must be sufficiently comprehensive. This means that the auditor must be

in a position to express an opinion whether, in all material respects, the cost report for the period examined presents fairly the costs incurred for the period, in conformity with generally accepted accounting principles applied on a basis generally consistent with that in the preceding accounting period. This opinion must also indicate whether the accounting procedures and system of internal control maintained are adequate for the purposes required. The opinion must further specify whether the costs included in the annual cost report were determined in accordance with the provisions of governing contracts and cost principles issued by the Social Security Administration.

(c) Contracts for audit services should be entered into with those certified public accountants or public accountant firms meeting state and local requirements for licensure; where there are no such requirements, the intermediary must determine that the firm has an established reputation and

represents a stable and effective operation.

4. The Audit Agency, DHEW, will appraise the effectiveness and acceptability of the intermediary's audit of provider costs. To the extent the Audit Agency can establish the reliability of audit work performed by others, the agency will accordingly avoid duplicative audit efforts. To assist the Audit Agency in its audit activities, it is suggested that agreements between intermediaries and auditing firms include a specific provision that the work papers of the audit organization are to be made available as needed to representatives of the Audit Agency. It is desirable that the Audit Agency have ready access to internal control surveys, audit programs, audit work papers, and audit reports prepared in the course of an intermediary's audit of provider records.

Audit capability:

Order of preference

The following are listed in rated order of preference.

1. (a) Some intermediaries have established and presently maintain as part of their own operation an ongoing provider audit capability. In such a case, the intermediary will continue to use its own audit organization for verifying provider costs under this program.

(b) Some intermediaries now purchase for their own program provider auditing services from a certified public accountant and/or public accountant firm. In such cases the intermediary will expand these audit contracts within the framework of the rates currently being paid by the intermediary to such a firm, to apply to the verification of provider costs under Parts A and B.

(c) Some intermediaries which do not have an audit capability as described under (a) and (b) above may have available in the intermediary's service area a provider audit capability from

an independent organization other than a certified public accountant or public accountant firm (e.g., Hospital Cost Analysis Service, Inc., of Maryland). Where there is such an independent organization, the intermediary will be expected to purchase this service for cost verification under Parts A and B. The rates of payment for such services should be comparable to the rates being charged by the independent organization to other third parties for similar services.

Such an arrangement with the independent organization would not be required if the intermediary demonstrated to the Social Security Administration that the services of such an organization were not readily available, were not adequate, or were otherwise not feasible.

2. If the intermediary does not have or cannot make any arrangements described under category 1 above, the intermediary will then have the option of either of the following:

(a) The intermediary may recruit, train, and develop a qualified professional audit organization of its own to accomplish this annual cost verification. This is subject to the requirement that the costs of this service would not be more costly than those which would be required under option (b) below.

(b) The intermediary may contract with a certified public accountant or public accountant firm to render necessary provider auditing services for the intermediary. The rates to be paid for these services must be comparable to the rates charged in the area for similar type services.

3. Where the intermediary does not have or cannot make arrangements as described in categories 1 and 2 above, the following alternative may then be used. The intermediary may contract with the provider's own certified public accountant or public accountant firm to accomplish the cost verification by appropriately

expanding the annual audit of the provider's books.

Where such an arrangement is entered into, the intermediary would be expected to reimburse the auditing firm for the services rendered for the intermediary at appropriate rates comparable to those payable for similar services in the area. Contract arrangements under this option will be recognized and honored on a going-in basis until January 1, 1968. Prior to December 1, 1967, each intermediary involved in such a contract arrangement will report to the Social Security Administration on the effectiveness of these arrangements and whether they should be continued on a permanent basis.

Approval of Audit subcontracts by SSA

Any arrangements to be entered into by the intermediary under B.1.(b), B.1.(c), B.2.(b) and B.3 will of course require prior approval from the Social Security Administration; this is required under the present contracts between the Social Security Administration and intermediaries with respect to the subcontracting of intermediary functions.

Journal of Accountancy Has Fifth Editor in 54 Years

With the July issue, George B. Finnegan III becomes editor of *The Journal of Accountancy*. Mr. Finnegan, formerly with *Business Week* and the Research Institute of America, became managing editor in January 1964.

Charles E. Noyes, the Institute's director of publications, who has been editor since 1956, assumes the title of *Journal* publisher which has been held by John L. Carey, who relinquished the editorship in 1955.

Including Mr. Finnegan, *The Journal* has had only five editors since A. P. Richardson became the first full-time editor in 1912. The other was John Lawler, now the Institute's managing director.

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Institute comments on proposed Treasury practice regulations

On June 20, the Institute's committee on federal taxation commented at Treasury hearings on the agency's proposed revision of Circular 230. The modified circular would give effect to the changes required by the passage last November of a bill providing for the automatic admission of lawyers and CPAs to practice before the Treasury Department.

Here, in part, is what the committee had to say:

We believe that the proposed revision is generally satisfactory; however, we have some reservations concerning two principal aspects of the proposed revision: first, regarding the procedure for filing the declaration of qualification and authorization by attorneys and CPAs; and, second, regarding the disciplinary provisions.

In establishing the procedures to be followed in filing the declaration, the following points should be considered:

1. A separate form should be developed for the declaration to distinguish it from a power of attorney. We believe a separate form would be less confusing than a combined form for the declaration and power of attorney. We would be pleased to assist in the development of the declaration form by either submitting to you a draft form or by commenting on a form which you will develop.

2. The declaration should be signed only by the person who appears to represent a particular party on whose behalf he acts.

3. Once a declaration is filed, it should continue to apply with respect to the particular client regardless of the number of appearances made by the attorney or CPA at any one of the administrative levels. The same declaration also should apply as the case may proceed to higher administra-

tive levels. We recognize that in some cases a power of attorney may be required.

We believe that some of the proposed changes in the disciplinary provisions limit unnecessarily the Treasury's scope of responsibility to take disciplinary action in certain cases. A comparison between key provisions of the present rules and the proposed rules demonstrates the limitation of authority:

1. Current rule. Section 10.51(a): "Disreputable conduct for which any enrolled attorney or agent may be disbarred or suspended from practice before the Internal Revenue Service includes any conduct violative of the ordinary standards of professional obligation and honor."

Proposed rule. Omitted.

2. Current rule. Section 10.51(b): "Among other forms of disreputable conduct the following are deemed to constitute such conduct:

- (1) Conviction of any criminal offense prescribed by the Internal Revenue laws or conviction of any crime involving moral turpitude. . . ."

Proposed rule. Section 10.51(a): "Disreputable conduct for which an attorney, certified public accountant, or enrolled agent may be disbarred or suspended from practice before the Internal Revenue Service includes, but is not limited to:

- (1) Conviction of any criminal offense under the Revenue laws of the United States. . . ."*

3. Current rule. New provision which would apply to enrolled agents only.

Proposed rule. Section 10.51(b): "Enrolled agents. In addition to the categories of dis-

reputable conduct enumerated above, conviction of any criminal offense involving dishonesty or a breach of trust by an enrolled agent may be considered grounds for disbarment or suspension from practice before the Internal Revenue Service."

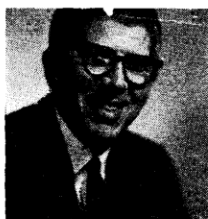
The proposed limitations on disciplinary authority would create an imbalance between the disciplinary responsibilities of the state licensing authorities and the Treasury. We believe this imbalance is not in the public interest and recommend that the following changes be made to restore the balance:

1. Amend Section 10.51(a)(1) of the proposed rules to provide, as the current regulations do, that disreputable conduct includes "conviction of any crime involving moral turpitude."

2. Amend Section 10.51(b) of the proposed rules to make it applicable to CPAs.

Other Comments. Section 10.51(a)(8). This section provides that "maintaining a partnership for the practice of law, accounting, or other related professional service with a person who is under disbarment from practice before the Service shall be presumed to be a violation of this provision."

We believe that this provision permits a presumption of guilt on the part of an innocent practitioner because of his association with his partner. This provision presumes knowledge on the part of the innocent practitioner — a presumption which, in the light of the large partnerships operating in the accounting field, is unrealistic and unduly restrictive. We suggest that the word "may" be substituted for "shall" in the above quotation.



FROM THE
PRESIDENT
ROBERT M. TRUEBLOOD

Creativity and the CPA

IN EVERY age, one of society's great needs is for *creativity* — creativity in the leadership of institutions, and creativity in our individual lives.

Many might say that creativity is not a quality generally applied to accountants. But CPAs who would make that statement do themselves and their profession an injustice. For, in fact, there is much creativity in our profession. There has been from its beginnings. Accounting could not have achieved the stature and confidence it now enjoys — indeed it could not have survived — without creativity *in abundance*.

But in every generation there is a need for renewal. There are periods of particular challenge and accomplishment in the life of a profession, as in the life of an individual, and I believe that accounting is in such a period now. But we must remember that "tides taken at their flood" can let one down as readily as the tides may raise one to great heights. Shakespeare specified that the "*tide must be taken*." He did not say that we will be carried happily along, just because we happen to be in the way.

The over-all problem

The over-all problem for our profession, as for society generally, is that of rapid change and the facility to accommodate to change. Let me mention some of the developing conditions in accounting, as I see them:

- In the time ahead there will be broader applications of the attest function, extending to social measurements not presently considered a part of our role.

- There will be further exploration in the management sciences. Analysis of the processes of decision making will open broad new horizons.

- The *fact* of the computer increasingly demands that more among us become deeply familiar with its potentials and with its limitations. And the computer calls for the development of standards both in the design of information systems and in the audit of such systems.

- Criteria must be worked out for determining the circumstances that warrant the use of alternative accounting principles.

- The structure of the American Institute has remained essentially the same for some 20 years, while membership has grown from 10,000 to 55,000. This circumstance indicates a need for extensive review, and possibly for revision, of our organization.

- The provocative discussions about professional independence that have followed upon the marked growth of management services will undoubtedly continue until a position has been defined which is generally acceptable to society (not necessarily to ourselves).

- Our ethical rules — some of which may seem almost inconsistent with the desired and desirable public posture of our profession — need a continuing and critical review.

It is accordingly clear, I think, that this is an exhilarating time to be a part of accounting.

I feel it is the role of the state societies and of the AICPA to guard the profession against complacency, and to foster the innovative urge. Conversely, these

institutional groups provide the vehicle by which the individual can be a stimulus to his profession.

Why do we CPAs take our professional organizations so seriously? The reasons, I think, are suggested by the choices Margaret Mead made when she was asked to name what she considered to be the "constants" of man. She said these constants are: an urge in man to adapt to his environment; an urge in man to relate to something bigger than himself; an urge to work in a group to attain something man cannot obtain alone; and finally, the desire for companionship.

Productive adaptations

CPAs seek, within the environment of our economy, to make productive and useful personal adaptations. We strive to relate our efforts to a higher purpose and to a goal larger than ourselves. As members of a group, we make contributions to our time of a breadth and of a nature we could not achieve alone. And we find opportunity for fraternity. Thus we CPAs, as a group and within the framework of the Institute and our state societies, move toward realization of those "constants" which sustain the moral and the intellectual life of man.

To what might we apply our creativity beyond those examples and problems I've already suggested? One important area is that of corporate financial reporting. Great progress has been made in providing investors and the public with more meaningful, with more complete information. It is said that the American investor is the best informed in the world, and we *can* take satisfaction in that fact. But can we stop there? Hardly. Our creative sense should lead us to question whether share-

owners are *as fully* and *as clearly* informed as is professionally possible.

Of course, it is one thing to ask these questions — and quite another to do something about them. We were reminded of this when SEC Chairman Manuel F. Cohen — to use *Business Week's* term — prodded the profession to greater action on the matter of more "comparability" in corporate financial reporting. This is a technical problem, as most of you know, that has been debated within the profession for some time.

It is not my purpose here to add to that debate. Suffice it to say that the issue is neither so simple nor susceptible to quick and easy solution as the mere statement of intent might imply. If the profession has not acted with greater alacrity, it is because there are ancillary considerations of long-term effect, of degree, and of circumstance, which bear on whether "comparability in the strict and literal sense" is either possible or in the public interest. I would not like to see so important an issue become a shibboleth. Nor would I want our profession led to opinions under pressure of uninformed sentiment, such as sometimes comes from user groups. But *never*, *never* would I want our profession to be accused of delay, of internal dispute, or of quibbling over minutiae in the improvement of financial presentations.

No one quarrels with the objective of greater comparability. The principle has, in fact, been endorsed and adopted by the governing Council of the American Institute. But our responsibilities lie in the manifold effects of the broad, and sometimes not easy, applications of the comparability concept. Professionally we must move in that direction — but we must move surely, and certainly. The profession will not be damned for "making haste slowly," if the profession ultimately makes progress — and if that progress is sound, and in the public

interest. I can confidently say that I believe, in coming months, you will see significant actions on the part of the Accounting Principles Board with respect to a number of key issues which have been troubling us for some time.

Nonetheless, we must avoid within our profession a tendency, common to all institutions, to become preoccupied with the status quo, to concentrate on simply rearranging known factors, and in elaborating known techniques more and more finely. And we must avoid the comfortable, but not very comforting, methods of making progress simply by "trial and error."

Though he was speaking in a quite different context, I think that we accountants might give thought to the warning about "consensus thinking" which James MacGregor Burns gives in his recent book on presidential government. Mr. Burns says that *consensus* does not often reflect the deepest needs and desires of the

nation, but rather that consensus is an attempt to agree on so many small issues that great public purposes are lost sight of.

In my view, the antidote to consensus thinking is creative thought, creative leadership, creative personal lives.

We all know professionals — be they doctors, lawyers, CPAs — who possess the quality of inventiveness to a very high degree. We know others who fail to assume even the responsibility to study or to absorb the inventiveness of their peers. Failure to keep abreast of the developments in one's own time and in one's own profession usually results more from lack of effort than from lack of capacity. Yet there are those in the professions who at retirement are practicing only what they remember from the textbooks of their youth. I trust that *all* of us will strive to retain intellectual curiosity, mental alertness, and receptivity to new ideas — over all the years of our lives.

Statistical Sampling Program. In recognition of the increased need for exposing to independent auditors statistical sampling techniques presently available to auditors, the AICPA committee on statistical sampling has developed a one-day program for presentation to interested state societies. The program includes discussion of statistical terminology, sampling selection methods, statistical sampling plans, evaluation of sampling results and a case study. The program presented by the full statistical sampling committee utilizes handouts and film slide material.

To date, presentations have been made at Tulsa, Okla.; Dallas-Fort Worth; Houston; Columbus, Ohio; New Brunswick, N.J.; and Minneapolis, Minn. The committee will complete its busy 1966 fiscal year with a presentation at Madison, Wis., on September 8. Development and presentation expenses of the program have been assumed by the firms of the individual committee members and the AICPA.

Boston PD Seminars. As long as you're planning to be in Boston for the annual meeting, why not attend a professional development seminar?

There will be two: "Improving Profits through Cost Reduction" and "Special Reports." They will be held simultaneously on Saturday, October 1, just one day prior to the start of the annual meeting, at meeting headquarters, the Sheraton Boston Hotel.

The seminars will be conducted by their authors: Irving Kellogg, (Improving Profits), and Charles J. Weiss and James W. Kelley (Special Reports).

The cost of the seminars, which are being co-sponsored by the Massachusetts Society and Institute's PD division, is \$35. For other information and registration forms, write to PD division, AICPA.

Editors, writers, attend Institute financial communications seminar

A successful experiment in press relations was conducted by the Institute the weekend of June 10-12 when nine members, including President Robert M. Trueblood and SEC Chief Accountant Andrew Barr, met with 13 financial editors and writers in a "Seminar on Financial Communications."

Mr. Trueblood had agreement from both the writers and the accountants when he concluded, "From the results of this experiment, I am enthusiastic about its possibilities for the future. I feel we should consider holding such seminars in other parts of the country."

New York Herald-Tribune Financial Editor Myron Kandel summed up for his colleagues: "We feel that this was a very good session. I hope personally that you continue it. It has given us a bet-

ter idea of auditing and the kinds of problems that exist."

Newspapermen and business magazine writers from Boston to Philadelphia and northwest to Rochester joined in the session. It was held at Tarrytown House, a Tarrytown, N.Y., conference center.

The meeting, organized by Rod-eric Parnell of the AICPA staff, was structured around descriptions of the behind-the-scenes judgment and accounting techniques involved in financial reporting.

A session covering basic concepts of accounting kicked off the seminar. This was followed by a description of the roles of management, the independent CPA, and the Securities and Exchange Commission. Saturday afternoon was devoted to examining annual reports and items affecting earnings per share to which news-

papermen should pay particular attention.

Sunday morning, the program of the Accounting Principles Board was discussed.

The seminar was closed by Mr. Trueblood, who summed up by emphasizing the importance of judgment in CPAs' determinations, what may be expected of the APB in the future, the problem of accountants' legal liability, CPAs' great concern with independence, and some future expectations for the profession, such as extension of the attest function.

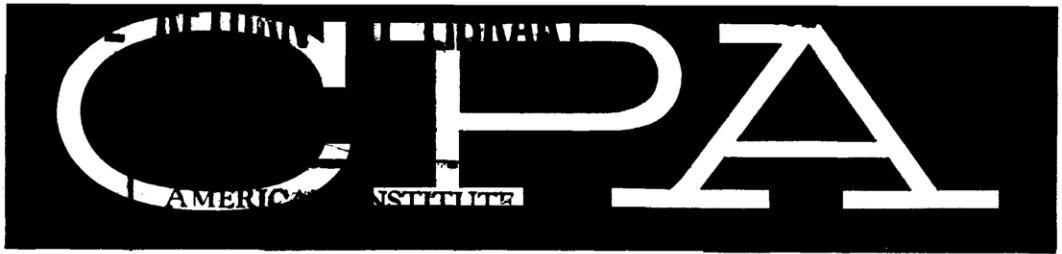
CPAs who gave talks at the meeting were Lindsay Boyle, Haskins & Sells; Joseph Cummings, Peat, Marwick, Mitchell & Co.; Philip Defliese, Lybrand, Ross Bros. & Montgomery; Thomas D. Flynn, Arthur Young & Company; Leonard Savoie, Price Waterhouse & Co.; William D. Sprague, Arthur Andersen & Co.; and Kenneth B. Wackman, president of James Talcott, Inc., in addition to President Trueblood and Mr. Barr.

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***Ethics committee issues
opinion on fees
and standards***

The committee on professional ethics has issued an opinion on fees and professional standards (see page 5). In a special message mailed recently to all members reporting this action of the ethics committee, President Trueblood noted that the proposed repeal of Rule 3.03 on competitive bidding had aroused some apprehensions that the repeal might have the effect of modifying other rules bearing on the quoting of inadequate fees. Mr. Trueblood indicated that the ethics committee's action was intended to remove any misunderstanding on this point. The opinion states in effect that the quoting of an inadequate fee may in some circumstances be regarded as evidence of a violation of the solicitation rule (3.02) or the rule on reporting standards (2.02).

***Executive committee
actions***

The executive committee met in San Francisco on July 28-29 and discussed reorganization of the Institute, fees, computers, future financing of Institute programs, and other issues of importance to the membership. Capsule accounts of the committee's actions appear on page 2.

***Treasury issues
New IRS practice rules***

Effective September 13, CPAs will no longer need a Treasury card to practice before IRS. Starting that day, the Treasury's new practice rules — published in the August 13 *Federal Register* — will require a written declaration from a CPA "that he is currently qualified as a CPA and is authorized to represent the particular party on whose behalf he acts." A Treasury card issued before September 13 "shall be invalid and may not be used in lieu of such written declaration." The Treasury is currently developing the declaration forms.

***Annual meeting:
October 2-5***

The Institute's 79th annual meeting, to be held this year in Boston on October 2-5, is fast approaching. The deadline for sending in your advance registration forms is September 16. Turn to page 3 for a last minute report on the technical sessions and social activities planned for this year's meeting.

***Answers to questions
on tax returns***

May a CPA sign the preparer's declaration on a federal tax return where one or more questions on the return have not been answered?

"... only if he is satisfied that reasonable effort has been made to provide appropriate answers to the questions on the return which are applicable to the taxpayer," according to Statements on Responsibilities in Tax Practice No. 3, "Answers to Questions on Returns." The statement, prepared by the Institute's tax committee, was sent to all members this month.

AICPA executive committee meets in San Francisco; discusses reorganization of Institute, fees, computers

• On July 28-29, the Institute's executive committee met in San Francisco to consider issues of major importance to the membership.

• Agenda items included: a permanent paid AICPA president, future financing of Institute programs and financial seminars for the press in key cities.

• Here, in capsule form, is a report on what the committee discussed and the actions it took.

... Resolved that the **structure committee report** on the reorganization of the Institute be published and distributed for the information of all members, with a request for comments. The executive committee said the report was an "inspiration and challenge" to the entire profession. The committee further resolved that the report, as approved in part by Council at its 1966 spring meeting, be accompanied by an explanatory statement when submitted to the membership.

President Trueblood was authorized to appoint a subcommittee of the executive committee to give intensive consideration to the recommendations in section 3(a) of the report, which recommended the appointment of an eminent CPA as a permanent paid president of the Institute, and creation of the office of chairman. Council had referred this recommendation back to the executive committee for further study.

Medicare report forms

Recommended forms for use by the auditor for the intermediary under various circumstances have been prepared for the Social Securities Administration by the Institute's Medicare task force. The forms have been approved by the auditing procedure committee.

The executive committee hopes to make an interim report to Council at its October 1 meeting in Boston.

... Recommended that the ethics committee convene a special meeting to consider issuing an opinion on **fees and professional standards**. [ED. NOTE: At the special meeting, held on August 16, the ethics committee approved Opinion No. 18. See page 5.]

... Considered further the exchange of views on **computer practice** between subcommittees of the ethics committee and the executive committee. The executive committee explored means whereby members could offer computer services to other practitioners.

... Approved, with minor modifications, the tentative **Description of the Professional Practice of CPAs** which appeared in the June 66, CPA (p.6), and resolved to submit it to Council at the October meeting, with a recommendation that it be adopted as a statement of policy of the Institute, and that copies be distributed to all members for information.

... Approved a recommendation of the committee on **international relations** that the Institute provide in its budget for the next fiscal year \$10,000 for a research study to be made in a selected developing country in the

Western Hemisphere which has sufficient economic resources but where information presently available indicates that accounting is lacking. The study would attempt to determine means whereby such a country could raise its accounting, auditing and financial reporting standards. The recommendation carries the proviso that additional funds of \$40,000 could be obtained from other participants.

... Approved the action of President Trueblood in appointing a subcommittee to consider **future financing of Institute programs** and named to the subcommittee: Matthew F. Blake, New York, chairman; Horace G. Barden, Chicago; and Claude M. Hamrick, Jr., Atlanta.

... Approved the suggestion that the Institute sponsor **financial seminars** in other large metropolitan areas, similar to the one held last June in New York for financial writers (*The CPA*, July-August 66, p.10), and that provision be made in the budget for these meetings. Invitations to such conferences would be sent over a wide area in order that the conferences would have a truly regional representation.

... Resolved that a scroll be presented to the **American Accounting Association** in behalf of the Institute on the occasion of the 50th anniversary of the AAA.

Boston annual meeting coming up fast: here's what's planned for members

Before you know it, September 16 will be here and the deadline for sending in your advance registration application forms for the annual meeting will have come and gone. Remember: Advance registration applications received after September 16 will be processed at meeting time in Boston.

Highlights of the meeting (October 2-5) include *six technical sessions*...

An over-all view of the profession's environment. The national economic scene, the impact of the changing environment and its structure and functions and the international economic picture are all combined in this session, which explores business and accounting in the closing years of the decade.

The art of consulting. A three-part program dealing with: establishing the framework of consulting, the psychology of consulting and a panel presentation devoted to such topics as discovering opportunities, holding engagements and reporting results.

The use of the computer in aiding small business. A comprehensive look at computers focusing on the information needs of a typical small business client, a status report on major new technological developments in the field of integrated information systems and presentations of case studies on computerized information systems for small business clients.

The Common Body of Knowledge for CPAs. Interpretations of CBOK as viewed from the particular vantage points of an accounting educator, a mathematician, an accounting practitioner, a behavioral scientist and the chairman of the study commission, plus a general panel discussion and audience participation.

Tax legislation in the Ninetieth Congress. The several approaches to tax simplification now being advanced in Washington and how and when there is a likelihood of achieving such simplification, major tax proposals under way with respect to exempt organizations and private pension plans, and other current matters of vital interest to the accounting profession.

Changing concepts in the profession's ethics. The applicability of the Code to management services (concerned in part with the ethical implications of the lack of a definition of management services), the ethics of tax practice—the responsibilities of the CPA tax return-preparer to his client, government and public — and an exploration of the problems involved

in the ethics of auditing and reporting.

... *Major addresses* by Roy L. Ash, President of Litton Industries and Manuel F. Cohen, Chairman of the Securities and Exchange Commission.

... *A variety of social events* including a Boston Pops concert or a private tour of the Boston Museum of Science highlighted by planetarium show and the traditional banquet, with Metropolitan Opera star Marguerite Piazza and TV entertainer Henry Morgan as featured entertainers. And for the ladies, a tour of Boston's North Shore, a tour of Historic Boston, and a luncheon at which Cleveland ("Who Killed Society?") Amory will be the guest speaker.

As an added attraction, the Massachusetts Society will sponsor an old-fashioned clam bake at the Wychmere Harbor Club at Harwichport on Cape Cod on Thursday, October 6.

Follow the Congress with a European tour

The Institute, working with Lincoln Miller, a travel agent of Washington, D.C., has made arrangements to offer members attending the 9th International Congress of Accountants in Paris in 1967 a choice of two 21-day European tour itineraries.

Both tours call for departure from New York on September 5, 1967, arriving in Paris that evening. Following the close of the congress members will depart September 13 on the tour of their choice.

The first itinerary follows a northern route including Berlin, Copenhagen, Amsterdam, Brussels and London, with an optional return from Dublin or Glasgow on September 27.

The second itinerary covers Zurich, Lucerne, Venice, Florence, Rome, Madrid and Lisbon, returning to the United States on September 27.

Both tours include air fare, economy class round trip from New York, good hotels, sightseeing, most meals and tips. The cost per person, including hotel and meals while in Paris, is estimated at present rates to be \$925.

Members who are interested in these tours should write the professional relations division of the AICPA. If interest is expressed by a sufficient number, more detailed brochures will be sent to members with applications.

Sub-boards take action on five cases; expel three members; suspend two

Convicted of felonies

A sub-board of the Institute's Trial Board met in New York on October 21, 1965, to consider a charge of the ethics committee that J. Morton Finke, 274 Madison Avenue, New York, New York, had violated Article V, Section 5, of the By-Laws, which requires the expulsion of a member if it is found that he has been convicted of a felony or other crime or misdemeanor involving moral turpitude. It was also charged that this conviction brought discredit upon the profession. The respondent was not present at the hearing. The sub-board found him guilty on both counts.

The respondent requested a review of the sub-board's decision by the full Trial Board. An ad hoc committee of the Trial Board, which met on March 3, 1966, decided that his request should be denied. Accordingly, his expulsion became effective on March 3, 1966, pursuant to Article VI, Section 3(d)(ii) of the By-Laws.

The New York sub-board also considered the charge of the ethics committee that Joseph Abrams, 33 Great Neck Road, Great Neck, New York, had vio-

lated Article V, Section 5 of the By-Laws, which requires the expulsion of a member if it is found that he has been convicted of a felony or other crime or misdemeanor involving moral turpitude. The respondent did not attend the hearing and the sub-board found him guilty as charged. No request for a review of the sub-board's decision was filed and accordingly, his expulsion became effective 30 days after it was made, pursuant to Article VI, Section 3(d)(i) of the By-Laws.

Violated independence rule

A sub-board of the Trial Board met in Phoenix, Arizona, on March 3, 1966, to consider the charges of the ethics committee that Warren Mittelstaedt of 534 East Thomas Road, Phoenix, Arizona, had violated Rule 1.01 of the Code of Professional Ethics by expressing an opinion on financial statements knowing that his partner had a direct financial interest in the enterprise and had violated Article V, Section 4(f) of the By-Laws in that his certificate as a CPA had been suspended by the state board for 30 days. The respondent was present at the hearing. The sub-board

found him guilty as charged and decided that he should be suspended from membership in the Institute for six months.

The respondent requested a review of the sub-board's decision and his request was considered and denied by an ad hoc committee of the Trial Board on April 30, 1966. Pursuant to Article VI, Section 3(d)(ii) of the By-Laws, the sub-board's decision became effective upon the denial of his request for review.

Failed to file tax returns

At a meeting in Boca Raton Florida, on April 30, 1966, a sub-board of the Trial Board decided that Carl L. Nicholson, South 612 Lincoln Street, Spokane, Washington, had violated Article V, Section 5 of the By-Laws in that he had been convicted of failing to file personal federal income tax returns for the calendar years 1959, 1960 and 1961 and that his failure to do so was an act discreditable to the profession. The respondent was not present at the hearing. The sub-board found him guilty as charged and decided that he should be expelled from membership in the Institute; no request for review of the sub-board's decision having been filed, the decision became effective on May 30, 1966.

In another case heard the same day, the sub-board found that a member, who was present at the hearing, had committed acts discreditable to the profession in having failed to file federal income tax returns for three consecutive years. The respondent introduced evidence showing that his failure to file was the result of unusual mitigating circumstances.

The sub-board decided that the member should be suspended from Institute membership for two years. No request for review of the sub-board's decision was filed, and accordingly, the decision became effective 30 days after the hearing.

AICPA Insurance Trust. As of October 1, 1966, all members are invited to participate in the Group Insurance Plan, the CPA Plan, or both, if eligible. If you are interested and have misplaced or have not received the descriptions recently mailed, write immediately for the details from the Plan Administrator, Reid, Collins & Co., Inc., 530 Fifth Avenue, New York, N.Y. 10036.

Membership Cards — By Request Only. The Institute will send membership cards only to those members who request them. This is done as an economy measure since there have been so few requests in the past. Members desiring cards may obtain them by writing the American Institute of Certified Public Accountants, 666 Fifth Avenue, New York, N.Y. 10019.

Ethics committee answers question on solicitation of other practitioners

Q. *May an Institute member communicate with other practitioners offering to perform for them or their clients specialized services such as electronic data processing work?*

A. The rule against solicitation is not intended to prohibit such communications. It states in effect that a member shall not endeavor, directly or indirectly, to obtain clients by solicitation. But practitioners should be free to communicate with each other in attempts to solve their professional problems. Often it is only through such co-ordinated efforts that progress can be made.

It is not solicitation, as that term is generally understood, for a CPA to offer his colleagues specialized services. In such cases, no representations are made to the public and there is no encroachment upon the practice of other public accountants in violation of Institute Rule 5.01.

However, in the opinion of the ethics committee, the practice of asking other public accountants for professional work should be carefully circumscribed. For example, it would be improper for a member to write to all the CPAs or public accountants listed in a professional society membership directory. He should communicate only with those in public practice. Attempts to obtain engagements from society members who are treasurers, controllers, or other corporate officers would be regarded as solicitation in violation of Rule 3.02.

Moreover, the mailings themselves should be in good taste. In the committee's judgment, elaborate brochures and other printed materials should not be employed. The best procedure would be to write in letter form to colleagues stating simply that the necessary equipment and expertise are available for their own or their clients' benefit.

Second National Conference on State Legislation

- Are present accountancy laws adequate to meet the changing needs of the profession?

- Will the Common Body of Knowledge study affect future requirements for the CPA certificate?

- What are the new trends in state accountancy legislation?

The second National Conference on State Legislation to be held at the O'Hare Inn, Chicago, on October 23-25, 1966, will explore these and other problems. Hopefully, the conference will enable representatives of state CPA societies to better understand and maintain the legislative standards of the profession.

Sponsored by the Institute's

committee on state legislation, the conference will bring together state society presidents, executive secretaries of state societies, legislative committee chairmen, legal counselors and members of state boards of accountancy and provide a forum for the discussion of accountancy laws, administration of accountancy laws, accountancy legislation of the future, CPAs' relations with the legislature, and education and experience requirements.

Speakers include John L. Carey, Executive Director, AICPA; Andrew Barr, Chief Accountant, Securities Exchange Commission; and Guy W. Trump, Director of Education, American Institute.

Ethics Committee Opinion No. 18

"Fees and Professional Standards"

In determining the amount of his fee, a CPA may assess the degree of responsibility being assumed in the engagement, the time and manpower required to perform the service in conformity with the standards of the profession, the skills needed to discharge his professional obligation to the client and the public, the value to the client of the services rendered, and the customary charges of professional colleagues. Other considerations may also be involved. No single factor can be controlling.

It is characteristic of all professional persons to be more concerned with fulfilling their responsibilities to the public than with immediate financial reward. On occasions they may appropriately choose to serve a client for a fee less than cost, or indeed without any compensation whatever.

However, to quote a fee in advance of an engagement in an amount clearly inadequate to provide fair compensation for performing service in accordance with accepted professional standards may be regarded, in some circumstances, as evidence of solicitation in violation of Rule 3.02 of the Code of Professional Ethics. Without attempting to specify all circumstances that might be relevant in determining the propriety of a particular quotation, it would be appropriate to consider whether there were any facts suggesting that such inadequate fee had been fixed as a part of a plan or design to solicit business.

In such cases of inadequate fees there may be a temptation to minimize losses by reducing the amount of work below that required by Rule 2.02 of the Code, with serious consequences for third parties who rely upon opinions on financial statements.



FROM THE
PRESIDENT
ROBERT M. TRUEBLOOD

Independence, Objectivity, Integrity

*"There is no terror . . . in your threats;
For I am arm'd so strong in honesty
That they pass by me as the idle wind."*

—SHAKESPEARE, *Julius Caesar*, ACT IV, SCENE 3

Members are aware of the attention that has been directed lately to the question of CPAs' independence. Our professional publications have carried numerous articles on the subject. The Savings and Loan Commissioner for the state of California feels that the rendering of management services to a savings and loan institution almost automatically impairs a firm's ability to make an objective audit. I'm told that some people in the Social Security Administration wonder whether a firm that audits a hospital can objectively certify amounts due to the hospital under the Medicare program. And, as some of you know, I have recently spent a good bit of time with financial editors and writers in the New York area. Their conversation plainly shows an uncertainty about the stiffness of a CPA's spine when dealing with a client.

There are several reasons for this heightened interest in the independence of CPAs:

- The growing complexity of business has brought calls upon accountants for kinds of work beyond that which we have traditionally performed. I refer particularly, of course, to extensions in the area of management services.

- The evolution of the economy has increased the number of

people with a direct interest in the financial affairs of corporations.

- Changes in our social structure have increased the importance of economic relationships as between entities, and the complications of their relationship to the public sector.

- The growing complexity of society as a whole has multiplied the need for reliable assurances with respect to many kinds of assertions and reports, in addition to financial statements as such. In effect the public is extending its interest in the attest process.

I think this increased attention to CPAs' independence is part of a growing preoccupation with the morals of society — a new inclination to examine the ethics of businessmen and public officeholders, as well as professional people. If I may indulge in a bit of philosophical speculation, I think this inclination may stem from an introspective, and sometimes subconscious, pondering of our affluent society — of its elements of materialism, and of the fact that status is so often rated in terms of dollar-numbers.

But whatever the underlying causes, we have witnessed in recent years such things as:

- The dismissal of a prominent chief executive for ownership in a supplier-firm — which led to

greater self-scrutiny by many corporations, and a general tightening of safeguards against conflicts of interest in industry.

- The release of statements by political candidates of their financial positions during their campaigns.

- Cabinet officers disposing of investments that might be suspected of biasing their judgment.

Coming back to our own situation, I do feel bound to state my personal conviction that the present degree of concern about the independence of CPAs is perhaps somewhat overdone. I'm going to return to this point later, but I must add at once that I am acutely conscious that such public concern *exists*. And since public concern about our independence *does exist* in fact, we CPAs cannot, with good sense, ignore that concern.

Therefore I want to put before you an assessment — admittedly a quite personal assessment — of what we have done so far in this connection, and what we ought further to do.

There are two aspects of the question of independence: the actuality, and the appearance; the substance, and the form. Both are important. They interrelate.

This duality is recognized by the profession. With respect to the actuality of independence, the Institute's Code of Ethics states that a member ". . . shall at all times maintain independence of thought and action." While granting that independence is not susceptible of precise definition, the Code provides at least a suggestion of a definition by reference to the judgment of "a reasonable observer," a third party. And a partial definition of a reasonable person may be inferred from reference in the Code of Ethics to "one who has knowledge of all the facts."

With respect to the *appearance* of independence, Opinion 12 of the ethics committee states that: "... it is imperative to avoid relationships which may have the appearance of a conflict of interest." As you very well know, a member of the Institute is specifically enjoined from performing an audit for a company in which he, or any of his partners, owns stock or serves as a director. I am, myself, one who believes that owning stock of a company would in no way keep the vast majority of CPAs from performing a rigorously objective audit. *But, that is not the point.* Like Caesar's wife — CPAs must not only be pure, but they must take far more than normal care to give no ground for gossip or suspicion.

While there may be room for further progress with respect to the external forms of independence, the profession has, in my estimation, done a creditable job in this area.

The substance of independence

What I should like to suggest is that in the future we turn our thinking more to the *substance of independence*. It is obviously easier to deal with details of form, which are tangible and which can be spelled out in legalistic terms. But there is danger in becoming overly engrossed with rules and regulations. We should recall St. Paul's admonition about the spirit of the law, as compared with the letter. We must not emphasize the appearance of independence — to the disadvantage of the reality.

The integrity of the profession — of which independence is an important element — rests finally upon the *morality of the individuals* who make up that profession. And the *reality* of independence must take precedence over the *rules* about independence.

A truly distinctive feature of our profession as compared to many others is the degree of our

third-party responsibility. We're not unique in this respect. Consulting engineers, for example, bear a great responsibility to be sure that the designs they approve for a bridge will result in a structure safe for those who cross it. But by contrast, a doctor's responsibility is predominantly to his patient only, and as a rule there is only an incidental third-party element in the practice of medicine.

But the responsibility of the CPA, in his attest function, is not solely to the management whose statements he audits. The CPA has a very important responsibility to shareholders whom he does not know, to prospective investors, credit grantors, tax authorities, and others who just might read the financial statements. Thus our attest responsibility multiplies and extends to groups that are diverse in interest, and to groups that are indeterminate in kind. As has been pointed out many times before, we do not hold out to these groups that we guarantee the accuracy of financial statements — but we do accept the obligation of giving an expert opinion as to their fairness.

Obviously, no CPA can split himself into two persons — one an advocate, the other an attestor. But he *can*, I believe, always keep in mind his professional duties in both roles, and he *can* discharge his responsibilities in both instances honestly and fairly. But the individual himself must decide when and where his dual roles might conflict, and he must sometimes make his choice of one

or the other. But specified rules will probably not be of much use.

These are examples of the kinds of problems we presently have, in my opinion, with respect to management services. And, may I remind you that these problems will not go away simply by our wishing they were gone.

Not only accountants

But again it is not only accountants who have multiple roles. The lawyer does. Almost every professional does. The man of high moral sense will behave honorably in all of his roles—going, if necessary, to the point of withdrawing from a situation where he feels he might be unable to act as he should. Rules and regulations can limit the occasions for wrongdoing by men without high moral sense. But the ethical level of the profession in the larger sense is not necessarily raised by the multiplication of detailed prescriptions.

Earlier, I said that I felt the present degree of concern about CPAs' independence was somewhat overdone. I would now like to come back to this point.

The ground for my belief is that I am convinced the profession exercises a great deal of independence — but that the exercise of that independence is not widely recognized because that exercise usually takes place in private. By contrast — in the relatively few cases in which CPAs give a clean opinion on financial statements that later prove to be troublesome — the ensuing investigations and controversies are highly conspicuous in the public press.

There are also cases in which the independence of auditors is evidenced by exceptions in opinions — but these cases also are few. Most often, the opinions read by those who receive financial statements are in the standard language that probably seems almost perfunctory to third parties.

President Trueblood's column this month is an adaptation of a speech he made last June before the 69th annual meeting of the Pennsylvania Institute of Certified Public Accountants. Mr. Trueblood served as president of the Pennsylvania Institute in 1959-60.

But there may have been some strenuous tussles between partners of the auditing firm on the one hand, and officers of the reporting company on the other — all going on privately, *before* the client accepted the procedures or agreed to the disclosures which permitted the auditors to give a clean opinion.

The point is that the struggles and pressures between the client and his CPA can never be revealed — because of the confidential nature of the CPA's relation with his clients. Thus, behind-the-scene debates provide no evidence of independence to the general public.

There are, however, other kinds of evidence in abundance. Consider the volume of writing on independence and objectivity in accounting literature. Can anyone suppose that discussion of this order would be produced in a profession that was casual about its ethical responsibilities?

Beyond that, consider the many forces that converge upon a CPA.

His performance is constantly subject to the scrutiny of stockholders, bankers, financial journalists, the Securities and Exchange Commission, the Treasury Department, and, *most importantly*, his peers. How long could lack of firmness, or lack of candor, or lack of high principles be concealed from such observation?

The great majority of CPAs respond to their professional obligations not because that is the best policy in the sense of producing maximum material reward but rather because responding vigorously to professional obligations leads to rewards of inward satisfaction.

But let's look at the question of professional integrity from a hard dollars-and-cents viewpoint. A CPA's reputation is his main asset — maybe his only asset. He spends years building it. He knows it can be destroyed in a day. Unethical behavior can bring censure by his peers — reported to the public, and to all the members of the group to

which he belongs. It can lead to expulsion from the group, to withdrawal of his right to appear before the SEC or the Treasury, to loss of his license to practice as a CPA at all. These sanctions are so severe that few accountants risk incurring them.

To recapitulate my theses:

- Independence and objectivity are the most important elements of professional integrity — and CPAs possess professional integrity in high degree. But we *must* not be smug. We cannot *even* be content.

- Although rules and regulations are restrictive in their effect and therefore intrinsically negative, they are necessary. And we should continually seek out ways to improve them.

- We must not, however, become so engrossed in grappling with technicalities that we neglect the *heart of the matter*. And the heart of the matter and the heart of our practice is the individual CPA's moral attitude and his personal integrity.

CPA

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the CPA

OCTOBER 1966

Proposed deletion of competitive bidding rule and other By-Law changes highlight annual business meeting

As this issue of *The CPA* goes to press, more than 2,100 members and guests have already registered for the Institute's 79th annual meeting to be held in Boston, October 2-5. The business portion of the meeting will be highlighted by members' discussion of the proposal to delete the competitive bidding rule (3.03); the proposal to expand the executive committee; and the proposed amendments to the By-Laws permitting the automatic suspension of members who have been convicted of serious crimes or who have had their CPA certificates suspended or revoked, and which would permit reinstatement of expelled members after three years.

Tax committee chairman asks modification of bill to suspend investment credit

A memorandum listing six proposed amendments to HR 17607, the bill which would suspend the investment credit, was sent on September 22 to its author, Representative Wilbur D. Mills (D., Ark.), by tax committee chairman Donald T. Burns. The memorandum says that amendments are needed "to eliminate what appears to be unintended results and to ameliorate hardships." Rapid Congressional action taken on the bill prevented the full committee from submitting formal comments. The November *Journal of Accountancy* will carry a more complete story on the recommendations.

Institute lays groundwork for expanded public relations program

An enlarged public relations program is being planned for the Institute. To assist in developing the new program, Stewart Schackne, by arrangement with the Institute's public relations counsel firm, Osgood Nichols & Associates, will devote virtually full time to the Institute for at least a year.

Tax committee submits drafts for IRS experimental rulings program

The tax committee, which is participating in the IRS experimental rulings program, has submitted for consideration by the Service: a draft revenue procedure regarding the minimum gross receipts standards for social clubs; another draft revenue procedure regarding indemnity undertakings in a "B"-type organization; and a memorandum outlining several problems in the personal holding company area which may arise as a result of the Service's issuance of Revenue Ruling 65-259.

Regular auditor of provider should be first choice under Medicare

President Trueblood has asked the Social Security Administration to revise its statement on Medicare "*Audit Capability—Order of Preference*." "First preference," the Institute president said, "should be the engagement of the regular auditor of the provider."

SSA Insurance Intermediary Letter No. 38 (The CPA, July-Aug. 66, p. 4), listed as a last alternative, "the provider's own certified public accountant or public accounting firm."

In a letter to Arthur E. Hess, Director, Bureau of Health Insurance, President Trueblood said that it is the opinion of the Institute's Medicare task force and auditing committee members "that use of other alternatives will add substantially to the auditing costs of your program with the quality of audit in certain circumstances capable of being subject to criticism. While I understand that a requirement that all providers be

audited by independent public accountants may not be immediately feasible, it is also our opinion that the public, the provider and the government will be best served by such an approach and the recommendation that the provider's independent auditor report on costs is a natural adjunct to this conclusion."

President Trueblood cited as one of the major reasons for these conclusions:

"Audits of reimbursable costs are a natural extension of the procedures performed as the basis of reporting on financial position and results of operations. This is so because many of the provider's accounts may bear either directly or indirectly on the calculation of reimbursable costs. Performance of reimbursement examinations by auditors other than those examining the provider's financial statements would, of necessity, require duplication of audit work."

Ethics committee answers question on independence

Q. The president and 20 per cent stockholder of a member's client has offered the member an opportunity to acquire a one-sixth interest in a joint venture. The investment required would not be material in relation to the net worth of the member, nor would the enterprise formed by the six joint venturers be in competition with the member's client. If the member were to participate in such a joint venture with the client's president, would he be considered not independent as auditor of the client company?

A. Rule 1.01 requires that before expressing his opinion on financial statements, a member must assess his relationships with an enterprise to determine whether he might expect his opinion to be considered independent, objective and unbiased by one having knowledge of all the facts. It is not enough to *be* independent — the member must also have the appearance of independence.

An auditor who is a joint venturer with a principal shareholder and officer of a client company may be independent in fact. However, the inevitable intermingling of the financial interests of the auditor and the client's president would prob-

ably lead an observer to question the member's independence. The committee therefore recommends that the member refrain from participating in financial ventures with officers or stockholders of audit clients.

New Editors for The Journal and The CPA

George B. Finnegan has resigned his position as editor of *The Journal of Accountancy* to become editor of "Business International." William O. Doherty, manager of the Institute's ethics and state legislation department since 1960 and coauthor with John L. Carey of "Ethical Standards of the Accounting Profession," becomes editor of *The Journal* with the November issue. Charles E. Noyes continues as publisher.

Effective with this issue, Richard C. Brown succeeds Mr. Finnegan as editor of *The CPA*.

Editor: Richard C. Brown

Production Assistant: Carolyn Evans

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from the President
ROBERT M. TRUEBLOOD

Communication and Co-operation

One of the more urgent tasks which confront us is to develop an expanded machinery for communication and co-operation among all the accounting organizations throughout the world.

In pooling our resources to pursue common objectives, we would not be weakening in any sense our abilities to serve our individual needs, nor running any special risk of losing our special identities. We would simply be gaining the strength to resolve some of the problems which plague us all, and to ensure that the art of consulting will realize its full potential in the service of mankind.

The problems I am particularly interested in are those relating to the attest function, accounting education and accounting research.

The attest function

I believe that the attest function of the accounting profession will extend to many areas other than those to which it is now applied. These new areas for attestation will not only include additional business operations, but will be extended to a variety of sectors of society other than business.

I am concerned here, however, with the expansion of the attest function only as it relates to business.

Although the auditor's primary interest has shifted from validation of outputs to validation of procedures, his concern is still largely financial.

But a strictly financial orientation will not carry into the future. We will no longer be able to think about, or to deal with, separate and separable financial information needs.

What does this portend for the attest function? Since means for gathering financial data will

be only part of a corporation's integrated information system — testing the output of financial information separately will become uneconomic. Even if it were feasible for the attestor to evaluate only the financial output of an enterprise, he would have to approach the task in a matrix of many other information networks.

The professional accountant of the future must, therefore, be able to comprehend the entire management information system. He will continue to be the synthesist that he already is, putting together summaries of the results of processes. But the accountant of the future must become a generalist (in the very broadest sense of the word) — a generalist competent with respect to a wide range of management problems and management systems.

The complex partnership of man and machine will become an overriding characteristic of our profession.

The professional practitioner of accounting must become comfortable with a view of events which is probabilistic, rather than deterministic, and perhaps comfortable is too comforting a word. Rather, I suspect that all of us are somewhat outraged when hit in the face by the tail of a probability distribution.

It is my view that ultimately the attest function may be dissociated from the financial process, as such. In the future, the attest function may well be applied to the total management process.

Accounting education

As the attest function moves from dealing only with quantifications expressed in units of money to dealing with much more subjective matters, changes in education for both the attestors and for the information specialists must take place. I

do not doubt that the academic programs under development will ultimately meet the need for equipping practitioners to provide attestation in the broad areas that can be foreseen.

The composition of such educational programs is, of course, a responsibility which must largely be discharged by our professional educators. Town and gown have always been synergistic—one stimulating the other to action—with such interactions leading to concepts which in turn become the basis of new actions. Today's practice is often the basis of tomorrow's theory. Tomorrow's theory frequently becomes the practice of the day after tomorrow.

The emerging concept of management information systems may presently be of more concern to the practitioner than to the academic accountant. Yet, in view of the many advances in the profession which have been stimulated by the academic community, it is not surprising that we look to our academic colleagues to explore in depth this new frontier of knowledge.

Accounting research

As we contemplate the next several years of accounting, all of us will surely agree that the profession's progress will depend heavily on research. This, of course, is a topic on which there is wide diversity of opinion and, I think, a lack of understanding.

There are many, particularly in the academic field, who hold that the research conducted by the American Institute is not research at all. Conversely, there are practitioners who look at the subjects of some proposed research projects in academia and find it impossible to relate them to the vital problems of the real world.

I believe there is validity in both of these extreme viewpoints.

The educator's impatience with what practitioners do in the name of research arises from the fact that the practitioner's efforts do not usually conform to the pattern followed in the physical sciences, that is: setting up a strictly defined hypothesis, determining that the hypothesis is testable, accumulating a large amount of evidence, and subjecting that evidence to rigorous statistical processes. On his side, the practitioner is acutely conscious that "accounting is a man-made art . . . (and that) it does not enjoy the discipline of natural laws."

For example, the practitioner believes that a recent study by the American Institute's committee on auditing procedure with respect to the auditing of public warehouses is indeed a very useful kind of inquiry. Members of the committee talked with partners of more than 60 firms and found out what they did in performing such audits; they found out from warehousemen the details of their businesses; and the committee arrived at a series of recommendations. These recommendations will not eliminate absolutely the opportunities for chicanery in warehouse operations, but the studied analysis of the industry will surely make for tighter auditing in that field.

In short, the review of the literature on a subject and the analysis of current practice are necessary and useful exercises, whether or not the procedures can properly be described as research. But even more important is research of a different kind — research which involves the orderly accumulation of evidence, within a predetermined framework, and the systematic analysis of that evidence.

I think professional societies, such as the American Institute and the American Accounting Association are particularly fitted to conduct the first kind of research.

The second kind of research falls perhaps only within the province of universities. But if accounting and accountants are to survive, the educational fraternity must assume the responsibility for an even more impressive fundamental research accomplishment than it has yet attained. Investigative projects of an interdisciplinary nature — where accounting relates, for example, to the law, economics, or to the behavioral sciences — undoubtedly can best be performed by the academic, but the practitioner has a deep responsibility for co-operative and collaborative involvement.

An interchange of support

Our problems of the future regarding accounting research are interdependent. The educator must do what he can best do. And we — through our professional societies — must do what we are equipped to do. But above all there should be an interchange of support — and interchange of financial resources; and interchange of intellectual facilities; and a shared faith in our common objectives.

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This guide interprets and summarizes the application of accounting principles to the business of contracting and considers some of the unusual auditing problems which may be encountered. It replaces the two previous studies, *Auditing in the Construction Industry* and *Generally Accepted Accounting Principles for Contractors*.

In addition to consolidating material from these earlier studies, the booklet includes a substantial new section containing illustrative financial statements which have been prepared on the percentage of completion method and the completed contract method of accounting. This section also provides samples of the wording of auditor's reports for basic financial statements and additional financial data for analysis purposes.

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This guide is designed to acquaint the independent accountant with the unique as well as the more general problems encountered in the audit of a brokerage firm.

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GUIDES BY MEANS OF THE FORM ON THE REVERSE SIDE**

CPAs and bankers meet to discuss mutual problems

President Trueblood has proposed that consideration be given to "the establishment of a voluntary machinery to enable differences between bankers and CPAs to be resolved by mediation other than litigation."

He made the proposal at the first National Conference of Bankers and CPAs, which was held on September 9 in New York City.

J. Howard Laeri, who represented the American Bankers Association at the conference, spoke on "Closing the [audit] Gap."

Mr. Laeri, who is Vice Chairman of the First National City Bank of New York, said, "I believe we have come to the realization that we have a deep and continuing common interest in extending the lines of communication between us and broadening our understanding of each other's roles in the financial community." Then the ABA spokesman added, "However conglomerate our two professions may be, the fact still remains that, by getting together, we have at least taken the first step along the road to mutually

agreeable solutions to mutual problems."

The main portion of the conference was devoted to discussing the proposed AICPA guide, "Bank Accounting and Financial Reporting Practices and Their Relationship to Generally Accepted Accounting Principles."

During the afternoon session, representatives of the Institute and the ABA made short presentations on such topics as: what the banker requires in an audit; objective of an independent public accountant in reporting of financial statements; what the accounting profession should do to improve uniformity and quality in reporting presentations; and audit report needs for term loan agreements.

In addition to the American Institute and the ABA, the conference includes representatives of Robert Morris Associates and NABAC (The Association for Bank Audit, Control and Operation). The conference is made up of two sections: financial reporting of borrowers, and bank accounting and auditing.

APB issues draft opinion on determination of income and earnings per share and draft of omnibus opinion—1966

Net income should reflect all items of profit and loss recognized during the period except for prior period adjustments; extraordinary items should be shown separately as an element of net income of the period.

That is the major conclusion of the new APB draft opinion, "Reporting the Results of Business Operations." The draft was released for comment on September 9 to interested parties. It will become effective for fiscal periods beginning after December 31, 1966, if approved in final form by at least two-thirds of the APB.

"From time to time," the draft states, "the AICPA, through its organized boards and committees, reviews . . . the form and content of financial statements to determine how their usefulness may be improved. This opinion is the result of a review of present practices in the reporting of the results . . . of business entities."

The second part of the draft opinion specifies how earnings per share and dividends per share should be computed and reported.

It recommends that earnings per share figures

be disclosed in the statement of income, with separate disclosure of per share income from ordinary operations and extraordinary items.

The Board also issued for exposure a draft of "Omnibus Opinion—1966." The opinion carries out, in part, recommendation 5c of the special committee on opinions of the APB (*The CPA*, June 65, p.3).

"Omnibus Opinion — 1966" is the first of a series the Board expects to issue periodically on various matters that do not require separate opinions.

The subjects covered in the first omnibus opinion include: consolidated financial statements, poolings of interests — restatement of financial statements, deferred income taxes-discounting, offsetting securities against taxes payable, convertible debt and debt issued without stock warrants, liquidation preference of preferred stock, and installment basis of accounting.

The full text of both draft opinions will appear in Statements in Quotes in the November *Journal of Accountancy*.

from the Executive Director

JOHN L. CAREY

Change and Impact

When the environment changes as rapidly as it is changing today, few individuals can escape the need to adjust. The adjustment is not always easy or pleasant. Change, which may help some people, is likely to hurt others — at least temporarily.

The changes in the next ten or twenty years are likely to be just as important — quite likely more so — than those of the past 50 years. There is no reason to doubt that the demands for CPAs' services will again be multiplied—if CPAs can foresee what services will be needed and equip themselves to provide them.

However, in the process there will be stresses and strains — tensions between large firms and small firms, conflicts between traditionalists and innovators, disagreements among specialists, strong differences of opinion about policies and standards in the light of new conditions.

To avoid chaos there must be, first of all, good will and good faith. But there must also be organized procedures for research and investigation, identification and articulation of essential issues, discussion and debate, decision and action, communication and explanation.

Only the Institute can provide the means to these ends for the profession as a whole.

But the Institute itself is not immune to change. No matter how good its performance up to now may have been, it must also adjust and adapt if it is to meet the needs of the profession this year, next year, and in the years ahead.

The Institute has not ignored the signs of change. It has had a long-range objectives committee; it has a planning committee and a structure committee. It has consultants on economics, computers, public relations, and management. It has under study the staff organization, committee-staff relationships, and membership participation. A vast amount of information and opinion has been gathered. It is in a good position to adjust to change — but it may have to do some leap-frogging to keep up with it!

What are some of these changes? What should the Institute do about them?

Social trends and value judgments have an impact on professional accounting which is not always apparent on the surface. While in many

ways disorderly behavior and lower standards of conduct appear to some of us to be gaining ground among the population, at the same time there appears to be a rising level of expectation of ethical behavior on the part of the leadership. Conflict-of-interest, the use of inside information by corporate officers and directors, special privileges available to public office-holders, are being dealt with by public opinion with increasing severity. The same is true of the professions. In medicine, in law, in the judiciary and, I believe, in the accounting profession, lapses from high standards of conduct are treated with less tolerance than would have been the case twenty years ago. Questions about independence, and about compliance with auditing standards and accounting principles are more numerous and more emphatic than in the past. There is, unfortunately, a good deal of skepticism among bankers, financial analysts, and others as to whether the performance of certified public accountants measures up to their professed standards.

Unjustified skepticism

I, personally, have no doubt that this skepticism is unjustified. But it feeds on every alleged failure on the part of a CPA which receives publicity. In some way we must be able to communicate information to the public about the cases — and they vastly outnumber the incidents which may cast a shadow on the profession's reputation — where CPAs do courageously stand by their principles, win arguments with their clients, and reject opportunities to enrich themselves which might impair their independence.

The nation has also set itself social goals which would not have been dreamed of as attainable twenty or thirty years ago — the abolition of poverty, the abolition of illiteracy, the abolition of disease. These social programs involve money grants, loans and insurance.

In both its economic and social programs, the government finds increasing need for vast quantities of financial and cost information, as well as audit controls. Medicare is an interesting and recent example. Government may well become, in a sense, one of the principal clients of the accounting profession.

But it seems to me that the profession as a whole, speaking through the Institute, has a responsibility to the public to discourage unnecessary paperwork and unnecessary duplication of audit effort and expense. To this end, the experience of individual members and firms engaged in activities related to federal programs should be reported to the Institute. Then, through the appropriate committees and staff, recommendations can be conveyed to the decision-makers in Washington.

The Institute is now in a good position to do this. It has direct personal access to the Comptroller General of the United States, the Bureau of the Budget, and most of the administrative agencies. It has just appointed a new high-level committee to consult with the Secretary of Health, Education and Welfare. Its Washington office and the committee on relations with the Federal Government, with all its consulting committees and individual consultants, have developed lines of communication with almost every agency which is involved with accounting and

auditing in any manner. The Institute has a good reputation in Washington. Its objectivity is widely accepted. Its advice is respected.

A great deal has already been said and written about the impact of automation on all our lives, but particularly upon the practice of accounting. It is almost a certainty that the computer will replace all manual accounting and write-up work, including the preparation of financial statements and tax returns. It is also held out as a possibility that computers may be trained to audit themselves, in effect. They are already being used to produce forecasts, and the probable results of alternative courses of action, which afford a basis for management decisions.

It seems clear that the profession — and the Institute — are entering a new period of unparalleled opportunity. If they act with vigor, with wisdom and with self assurance they can do bigger and better things, and enjoy greater rewards and satisfaction.

This should be an exhilarating prospect for all those who may have a part in it.

A guide to Fall/Winter professional development courses

ADP? EDP? Management services? Taxes? Whatever your interest, wherever you may be located, there is probably a professional development course scheduled during the next few months that fits both your needs and time table. Check the list below and then contact your state society's PD office for more details.

MANAGEMENT SERVICES LECTURE SERIES— Cost Analysis Techniques

Memphis, Tenn., Oct. 13-14
Detroit, Oct. 27-28
Las Vegas, Nev., Nov. 17-18
Baltimore, Dec. 8-9

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IMPROVING THE ADMINISTRATION OF YOUR PRACTICE

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New York, Oct. 27-28
Denver, Colo., Nov. 3-4
St. Louis, Nov. 17-18

AN INTRODUCTION TO ADP

Newark, N. J., Oct. 13-14
East Lansing, Mich., Oct. 17-18
New York, Dec. 1-2
Dallas, Dec. 8-9
Scottsdale, Ariz., Dec. 12-13

AUDITING OF EDP INSTALLATIONS

Tulsa, Okla., Oct. 20-21
Cleveland, Oct. 31-Nov. 1
Birmingham, Ala., Nov. 3-4
Newark, N. J., Nov. 10-11
San Francisco, Nov. 28-29
Los Angeles, Dec. 1-2
Houston, Dec. 5-6
Seattle, Wash., Dec. 15-16

DEVELOPING A MANAGEMENT SERVICES PRACTICE

Las Vegas, Nev., Nov. 14-15

TRAINING PROGRAM FOR IN-CHARGE ACCOUNTANTS

Columbus, Ohio, Oct. 10-14
 Cranston, R. I., Oct. 24-28
 Greensboro, N. C., Nov. 14-18
 Des Moines, Iowa, Nov. 14-18
 Seattle, Wash., Nov. 14-18
 Baton Rouge, La., Nov. 28-Dec. 2

EFFECTIVE COMMUNICATION

Scottsdale, Ariz., Oct. 13-14
 Boston, Oct. 27-28
 Chicago, Nov. 3-4
 Hollywood, Fla., Nov. 10-11
 Charlotte, N. C., Dec. 1-2

WORKSHOP ON INDIVIDUAL INCOME TAX RETURNS

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 Washington, D. C., Nov. 10-11
 Columbus, Ohio, Nov. 14-15
 Cleveland, Nov. 17-18
 Philadelphia, Dec. 8-9
 Los Angeles, Dec. 12-13
 San Francisco, Dec. 15-16
 Newark, N. J., Jan. 14 and 21

"The scroll, so nicely worded and beautifully framed, from the American Institute to the American Accounting Association at the time of the latter's 50th anniversary was such a wonderful surprise for the Association's officers and members. Speaking strictly as a member of the Association, the Institute could not have done anything for this occasion that could have given me greater pleasure and satisfaction.

"Our organizations have much in common, and much to gain from co-operation—from being each other's booster. It has always been easy, even natural, for me to identify with the Institute and its members, and I have benefited from my membership in the Institute in an important way—I believe I am a more effective college teacher as a result. So tangible evidence of the Institute's goodwill toward the Association brings forth a good feeling and an even greater interest in and respect for the Institute. And I expect, and hope, that I am not alone, or with the minority, in this reaction to the Institute's recent gesture."

*From Professor Herbert E. Miller,
 AAA President, 1965-66,
 to AICPA President Robert M. Trueblood*

the CPA

OCTOBER 1966

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the CPA

NOVEMBER 1966

Special reports from the annual meeting

This issue of *The CPA* supplements the coverage of the Institute's 79th annual meeting (Boston, Oct. 2-5) reported in the November *Journal of Accountancy*. In *The Journal* you will find comprehensive reports of the business meeting and the technical sessions, the names of the Sells award winners, the CPA Gold Medal winner and profiles of the Institute's new officers for 1966-67.

In accordance with the By-Laws, a report summarizing the pro and con arguments presented at the annual business session on several proposed changes in the By-Laws and Rules of Professional Ethics—including an amendment to repeal Rule 3.03 on competitive bidding—is being prepared to accompany a ballot to be sent to all members.

A report on Medicare: the involvement of the American Institute/page 5

At the October 1 meeting of Council, William Freitag, chairman of the Institute's Medicare task force, spoke to Council at length on the new Medicare program: how it is administered, timing problems, involvement of the Institute, and other accounting facets.

The first report to Council of the Institute's new computer consultant/page 12

Gordon Davis, the Institute's new computer consultant, made a special report to Council at the October 1 session. His report covered such topics as an Institute in-house computer advisory staff, the progress being made by the AICPA task force on auditing EDP, representation of CPA interests on groups preparing EDP standards, and EDP professional development courses.

Major speeches by Presidents Giffen and Trueblood/pages 3 and 9

Both incoming President Giffen and outgoing President Trueblood stressed the need for co-operation and the urgency of solving some of the major problems which now confront the profession. Their messages hold importance for every member of the Institute.

CPAs Indicted for Fraud

By John L. Carey

Members of the Institute have reacted with shock and incredulity to published reports that two partners and a member of the staff of Lybrand, Ross Bros. & Montgomery were indicted on charges of conspiring to defraud. The firm as a whole was named as a coconspirator, but not a defendant.

This is the first case of which the Institute has knowledge in which criminal charges against CPAs have been based on alleged deficiencies in financial statements audited by them. The implications for the entire profession are most serious.

The firm is one of the oldest in the country. It enjoys an excellent reputation. Two of its partners have been presidents of the Institute.

It is understood that several outstanding CPAs testified before the grand jury in support of the firm's position.

Here is the text of a statement issued to the press by Mr. Walter R. Staub, Managing Partner of Lybrand, Ross Bros. & Montgomery, in connection with the federal indictment handed down in New York on October 17:

"The indictment of Mr. Simon, Mr. Kaiser and Mr. Fishman is shocking and unwarranted, as is the naming of Lybrand and Mr. McDevitt as coconspirators not indicted. It is particularly so since the government has advised us that the testimony of representatives of leading accounting firms called by the government before the grand jury unanimously upheld the position taken by Lybrand. This indictment is an ironic sequel to a chain of events which started when Lybrand withheld this firm's certification from Continental's 1962 annual SEC report (10-K) and thus precipitated action by the Securities and Exchange Commission and the courts.

"Essentially, we are accused of having failed to second-guess Continental's management and directors in the conduct of its business affairs. This has never been the auditor's function. There appear to be two major allegations against Lybrand in the indictment: First, that we should

have disclosed the ultimate disposition of certain advances shown on Continental's balance sheets as made to an affiliate controlled by Continental's chief executive officer (Roth), and second, that we did not properly evaluate collateral posted to secure these advances.

"As to the first allegation, for a number of years we had properly identified and disclosed on Continental's balance sheets these advances to the affiliate and the relationship of Roth to the affiliate, and we did so on the 1962 financial statements. It is clear therefore that we discharged our obligations as independent certified public accountants. As to the second allegation, we used the then current American Stock Exchange price as a value for the collateral, and this was entirely in conformity with generally accepted auditing standards. When the market price fell and it was apparent that the advances were no longer secured, we withdrew our certificate.

"As to the charge of conspiracy, our relations with Continental were entirely professional. Anyone who knows our firm and its reputation for independence will recognize that this charge is preposterous.

"With a 69-year history of highly professional service to thousands of our clients, Lybrand is entitled, we believe, to be dismayed and outraged at this baseless attack.

"The Lybrand organization takes great pride in the quality of services performed over so many years for our clients. We have complete confidence, therefore, that a full disclosure of our action in the instant case will not only find us innocent of these charges but will serve to build a greater public respect for and confidence in the principles of our public accounting system.

"Lybrand and its counsel are convinced of the innocence of these men and will vigorously support their defense."

Lybrand, Ross Bros. & Montgomery

Editor: Richard C. Brown

Production Assistant: Carolyn Evans

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from the President
HILLIARD R. GIFFEN

A Collective Effort

I accept the office of president of the Institute with a deep sense of obligation — and with some anxiety. It would be a bold man who accepted this office with complete confidence, knowing that he followed a line of such presidents as Robert Trueblood, Thomas Flynn, Clifford Heimbucher and their many distinguished predecessors.

But I am comforted and encouraged by the knowledge that there is a vast reservoir of talent in the ranks of the Institute on which I can call for help.

I do not encourage you to think that during the coming year there will be any dramatic achievements. I shall be satisfied if a year from now I can say that the entire organization has continued that steady progress on all fronts which has been characteristic of the Institute for the past fifty years. In that short half century, it has changed from a tiny organization of approximately a thousand members, virtually unknown in the community, to one of the largest, strongest, most vigorous and most influential organizations of its kind in the world.

As the profession grows larger, however, it becomes more difficult to preserve our spirit of unity, our sense of having a common cause, our fraternal feeling of mutual trust and confidence. The older professions of medicine and law have had the same difficulties.

For one thing, internal communications grow more difficult as Institute membership increases. The Institute now has more than 56,000 members. It must rely largely on the printed word to communicate with these members, and there is a good deal of attrition in this process.

Then again, as the social and economic environment changes, there is an increasing diver-

sity in the nature of professional accounting practice and, therefore, in the immediate interests of different groups of members.

In a changing environment of this kind, with all the goodwill in the world, there is bound to be a kind of competition — competition of both scope and quality of service. Clients who do not feel they are getting all they need from the CPAs they presently retain may change to CPA firms which they believe can give them more. The smaller firms, whose clients grow large and decide to go public, often lose old and valued clients to larger firms who are considered more familiar with the intricacies of the Securities and Exchange Commission and the underwriting processes. This sort of thing is bound to produce tensions within the membership; it is bound to create suspicion and questioning of the other fellows' motives.

These tensions can probably never be eliminated, but I believe that we should do all we can to minimize them. The accounting profession is not even yet so large or so strong that it can face the challenges ahead with complacency. If divisive tendencies within the membership should grow to a point that impaired the united effort to advance the profession as a whole, the odds against our continued progress would multiply.

A few essential principles

Therefore, I believe it is in the best interests of each of us, whether we be partners of very large, very small, or medium-sized firms, to keep constantly in mind a few essential principles. We claim to be professional men. It is characteristic of professional men that they are motivated more by the desire to serve the public than merely to make money. I do not think it is naive to say that

I believe this is really true of most certified public accountants. We all want to make enough money to live comfortably, and so do the doctors and the lawyers. I think, however, most of us derive the greatest satisfaction from the feeling that we are helping our clients, that we are skilled practitioners of our art, that we do a good job, and that we are recognized as useful members of our communities. As a matter of fact, I firmly believe that with this kind of motivation we can scarcely avoid making enough money to assure a comfortable life.

We are professional people . . .

Let's think, talk and act like the true professional people we are. If we don't, we may find that the public does not accept us as professional people, and this may have rather grave consequences for all of us.

Last year the Institute appointed a committee on structure and retained a management consultant, Robert Greenleaf, to review its internal organization and decision-making process. In speaking to the Council, Mr. Greenleaf said that in the course of his engagement, he had discovered, rather to his surprise, that the accounting profession, as identified by the Institute, was a *private* organization rendering a *public* service.

What he meant, I think, is that the work of CPAs individually and collectively has a profound impact on the public — on investors, credit grantors, government agencies, or the collection of the revenues, for example.

Mr. Greenleaf went on to say that when a private organization renders a public service its performance must be not merely good, not merely excellent, but *distinguished*. Otherwise it might cease to be a private organization, or the public service it renders might be turned over to a public organization.

. . . and have much to do

If we accept this proposition, we have much work to do — a great deal of collective work, through the Institute and our state societies.

We have not yet convinced the public that we can lead effectively in the narrowing of areas of difference in financial reporting — although I believe we are on the verge of a breakthrough on this front. Witness the two strong opinions of the

APB already issued in 1966 and the three opinions that are presently being exposed, and that will probably be issued within the calendar year.

There is a transition going on in accounting education, and we must take an active part in it. The study of the Common Body of Knowledge of CPAs, about to be published, gives us a good start.

We face serious problems in recruiting enough young men and women of high quality to meet the increasing demands of our clients. We have just completed a new film which should help in this effort.

Our disciplinary machinery, through which the Code of Ethics is given real meaning in the eyes of the public, is not fully effective. Our ethics committee and trial board are working overtime, but more needs to be done at the local level.

We cannot yet clearly perceive the full impact of the computer on all of our practices. Last year we retained the System Development Corporation to make six studies on this subject, five of which have been published. We also retained Professor Gordon Davis who has several other projects under way [see story, page 12]. But much more research is needed in this field.

We need to step up our public relations efforts. With the help of Mr. Stuart Schackne, who has agreed to give us practically full-time help for a year, we hope to make progress in this direction.

Problem solving

The kinds of problems I have mentioned cannot be solved by any one firm, however large, nor by any group of firms. They can be solved only by the entire profession through democratic processes. The Institute, the state societies and the state boards are the only instruments for collective action available to the practicing CPAs. They all will need greater resources, both in terms of manpower and money, to get the work done that needs to be done.

But all the resources imaginable will not be enough unless the entire profession remains united in active support of the effort to reach our goals.

I think we all realize that our economy will continue to require individual practitioners, local firms, area firms and national firms. The Institute must represent all of these units of practice in our internal as well as our external affairs. If our

representation of these units is broad, fair, and intelligent we will have general membership support for activities of the Institute, even though some of these may not appeal to particular firms or individuals, because it will be understood that we must represent all segments of the profession. This should be true of those of us who practice in smaller communities on a local or area level, and it should be true of the national firms who are presently in the flood-light of corporate financial reporting.

We've been very fortunate. We can be proud of our record to date. But we may well be at a critical stage in the development of our profession. We can't afford to rest on our laurels.

Let us not risk losing what we've already gained by losing sight of these fundamentals:

- (1) Our job is public service

- (2) Our performance must be not merely good, not merely excellent, but distinguished
- (3) None of us can go it alone
- (4) United we move forward, divided we fall backward
- (5) Our unity will be endangered by a business-oriented approach on the part of our members
- (6) In our own self-interest we must support our professional organizations — actively and generously.

Traditionally, I suppose, this has been known as an acceptance speech. On behalf of all the incoming officers we would like to turn this around and say thank you very much for accepting and honoring us.

AICPA Medicare task force chairman explains program's problems; involvement of American Institute

William Freitag, chairman of the Institute's Medicare task force, delivered a special report to Council on October 1. This is what he said.

Background

In the summer of 1965, Congress passed Public Law 89-97, commonly known as Medicare. This law is administered by the Bureau of Health Insurance of the Social Security Administration of the Department of Health, Education and Welfare. It contains two titles, Title XVIII and Title XIX.

Title XVIII relates to medical care of persons 65 years of age and over, and provides for their hospitalization, extended care, and in some cases professional medical care. The coverage as to hospitals and professional care became effective July 1, 1966, and as to extended care facilities will become effective January 1, 1967.

Title XIX applies to the hospitalization and medical care of the medically indigent. In effect, it is a means by which the states reinsure with the federal government the costs of care of these people.

It is extremely difficult to estimate the costs of these two programs. However, I have estimated that the federal government's projection of the

first year's costs of Title XVIII was something in excess of \$2 billion. This is, more than likely, a very conservative figure in view of the fact that since World War II, almost without exception, hospital costs in the United States have risen at a compound rate of approximately 7 per cent a year. An article in the September 6 *New York Times* indicated that costs in the New York metropolitan area are expected to increase 10 to 15 per cent in the next year, and that nationally increases are being predicted as high as 30 per cent.

Obviously, this is an extremely costly program — and it will be subject to public scrutiny. It is of further interest to note in regard to cost that in a hearing before the Senate Finance Committee, on May 25, 1966, it was agreed between a Senator and a representative of the Social Security Administration that the annual cost of Title XIX, which had originally been estimated at \$238 million a year for the federal government's share, could exceed a billion dollars a year.

Method of administration

The Bureau of Health Insurance is responsible for establishing regulations and principles

of reimbursement under Medicare, and for paying providers "reasonable cost." "Reasonable cost" was the terminology used in the original Act, and to the present time it has not been clearly defined.

To reimburse the providers, the government has established contracts with fiscal intermediaries, generally Blue Cross or commercial insurance companies. The intermediaries have the responsibility for locally administering the Medicare regulations with regard to providers, paying the providers, and annually auditing or having audited the reimbursement costs of each provider under their jurisdiction.

Timing and accounting problems

The Medicare law was passed in the summer of 1965, and its first provision became effective July 1, 1966. The first official draft of the basis upon which "reasonable cost" was to be paid to providers was issued on May 2, 1966, a year after the law was passed. The draft has been subsequently revised.

The principles of reimbursement will undoubtedly require extensive changes in the historical methods of accounting used by hospitals. Cost centers will be necessary. Accumulation of accurate, audited, statistical information is required. A sophisticated stepdown basis of cost determination is required. Depreciation based upon historical cost will be an allowable expense. In view of the fact that most hospitals have not recorded fixed assets at cost and have not provided depreciation, a substantial change is necessary in this area.

The basis of reimbursement has been established to be what is commonly known as RCC (relationship of charges to cost), which is an entirely new concept of hospital reimbursement. It affects the hospital's method of charging patients and the basis and detail of recording such charges.

Involvement of the American Institute

In the spring of 1966 a question was raised with the American Institute by representatives of the Social Security Administration as to whether a CPA who is the auditor for a hospital could independently report on reimbursable cost to the fiscal intermediary acting on behalf of the

government. The ethics committee of the Institute, at its June 1966 meeting, indicated that a 1944 Council resolution applied to this situation. That resolution stated that an independent CPA may properly undertake auditing engagements on behalf of government agencies or other third parties involving the accounts of a regular audit client.

Shortly thereafter, Robert M. Trueblood appointed the Medicare task force. This task force, together with Karney Brasfield, chairman of the AICPA committee on relations with the government, and Richard A. Nest, division director, technical services, AICPA, met with representatives of the Social Security Administration at their offices in Baltimore. This group reviewed a draft audit program for Medicare which had been prepared by their staff, and recommended changes. At that meeting the Institute was asked by the Social Security Administration to recommend wording of the accountants' report to be used in Medicare audits.

AICPA recommendations

To carry out this request the task force met with a subcommittee of the committee on auditing procedure. This group took two actions. First, it recommended to President Trueblood that he write to Arthur E. Hess, Director, Bureau of Health Insurance, Department of Health, Education and Welfare, to indicate to him that, contrary to the recommendations in Fiscal Intermediary Letter #38, he wished to recommend on behalf of the Institute that the providers' own independent accountant be the preferred auditor for purposes of Medicare reimbursement audits [*The CPA*, Oct. 66, p. 2]. The basic reasons cited were that this would prevent duplication of auditing and thereby minimize costs. Although President Trueblood's letter was acknowledged, no official action with regard to these recommendations has as yet been taken. In this action I feel that the Medicare task force has performed a service to the profession, since this governmental agency has been advised that the course of action they had intended to take would add substantially to the costs of the program.

In view of the tremendous costs involved in the total program, it seems not only possible but probable that there will be investigations, Congressional or otherwise, at some point in the

carrying out of the Medicare program. When this occurs, I believe that the auditing costs will come under scrutiny.

The second action taken by the task force and the subcommittee of the committee on auditing procedure was to prepare and transmit to Mr. Harris Berman, Deputy Director, Health Insurance Reimbursement, suggested forms of accountants' reports. Forms were submitted for the varying circumstances which will be encountered: where the auditor for the intermediary is the auditor for the provider; where the auditor for the intermediary is other than the auditor for the provider; where there has been no previous audit of the provider; and where it could be foreseen that exceptions or disclaimers might be called for, suggested wording for such situations.

Subsequently, a revised draft of the audit program was issued by SSA to the fiscal intermediaries which contained the first three forms of accountants' reports referred to above, but omitted any reference to exceptions or disclaimers. [The task force met on October 7 to review the audit program draft and a meeting with the Medicare representative has been scheduled for November 2, after this issue of *The CPA* goes to press.]

Other problems

Within the framework of the regulations as they presently exist, it is conceivable that Medicare audits may have already begun. I am sure problems will arise in such cases because the final audit guide has not yet been issued.

Since the inception of the Medicare program a series of letters called Fiscal Intermediary Letters have been issued by Mr. Hess to the fiscal intermediaries. Some of these letters pertain to reimbursement problems. Several firms of CPAs have requested copies of these letters from SSA and have been told that they contain privileged information which is available only to those who "need to know." SSA has defined those who need to know as those who are serving the fiscal intermediary, and have indicated that those who are serving providers have no right to this information. This position creates problems for practitioners serving hospitals.

Recently, Fiscal Intermediary Letter #100 was issued by Mr. Hess which in effect provides that the intermediary must obtain bids for the

performance of intermediary audits and that selection of the auditors is subject to the approval of SSA. This letter also requires that the bidders submit their rates by staff classification and that, in most cases, more than one bid be obtained.

[ED. NOTE. The SSA was contacted on the matter on September 12. On September 27 the Institute was advised that:

1. Where competitive bidding was in conflict with requirements of state law, intermediaries would not be required to insist on competitive bids from audit firms.

2. Price is a factor to be considered and when all other considerations are equal, price should control.

The SSA agreed, however, that the audit quality could be impaired by encouraging the retention of the lowest bidder without adequate consideration of all pertinent factors.]

In view of the tremendous size and ultimate impact of the Medicare program, an independent accountant who holds himself out to perform work under the Medicare program has the responsibility to be fully knowledgeable regarding the law upon which the program is based, the published principles of reimbursement, and any and all regulations pertaining to the administration of this law which are necessary for him to properly carry out an audit of reimbursable costs under the program. He should be especially wary of making judgments as to interpretation of the law, principles, or regulations, since such judgments might substantially affect the amounts of money paid by the federal government. It goes without saying that substandard work under these circumstances could be extremely dangerous.

There are criminal statutes which protect the federal government against conspiracy to defraud the government, including approval of overpayments.

The problems as to independence, the content and availability of the audit program, the availability of Fiscal Intermediary Letters, the final format of the report forms, and, on a local basis, the problem of competitive bidding, all remain as problems and will require substantial application of time and effort on the part of the Institute and its members to find solutions which are proper in the circumstances.

Cohen in Appeal To Accountants

BOSTON, Oct. 2.—Manuel F. Cohen, chairman of the American Institute of Certified Public Accountants, today urged accountants to "virtually"...

California To Head CPAs

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Accountant Urges International Panel

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Prof Tells Accountants Benefits of Recession

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Oakland CPA Gets High Honor

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Annual meeting receives wide coverage

Press coverage of the Boston annual meeting was the most complete ever (see left). In part, it was due to the major addresses by Securities and Exchange Commissioner Manuel F. Cohen and Litton Industries President Roy L. Ash. For the most part, however, it reflects the growing public interest in what the profession is—and what it is doing.

The Institute's public relations staff worked closely with *Boston* magazine which carried in its October issue a feature on certified public accountants titled "A Profession Reaches the Top." It concluded with the statement that "the accounting profession is assuming an increasingly important position at the center of the entire business information system and, in a growing number of instances, at the corporate top."

And radio station KABL, which broadcasts to the San Francisco-Oakland area, announced that it had named Louis H. Penney, this year's recipient of the CPA Gold Medal for Distinguished Service to the profession, "Citizen of the Week."

The *New York Times* reported SEC Commissioner Cohen as calling for a "healthy skepticism" by accountants when reviewing corporate financial statements. The story went on to quote Mr. Cohen as saying, "Independent accountants lend authority to management's representations by their opinions as experts, and they operate as a check on managements in assuring that financial data are fairly presented in accordance with generally accepted accounting principles."

United Press International reported Earl F. Brown, general chairman of the meeting, as saying that increased complexity of business operations makes it imperative for CPAs to keep abreast of the latest techniques for providing valid, thorough and timely information to investors, credit grantors, the government and other clients.

Both major wire services carried stories on the technical session about the profession's environment, featuring Professor Ezra Solomon's report to the members of his views on the economic outlook.

And, for the first time in AICPA annual meeting history, the governor of the state in which the meeting was held declared a "certified public accountants week."



**from the past President
ROBERT M. TRUEBLOOD**

Rededication to Professionalism

Perhaps no one who has not been president of the American Institute can conceive of the scope and complexity of its operations — nor visualize the enormous volume of its production in terms of printed materials, personal communications, meetings, and courses. The AICPA has become one of the largest organizations of its kind in the world — and it is still growing. Our Institute has a distinguished record of achievement, of which we can be proud.

Yet I must say that I believe the accounting profession and thus the Institute are only on the threshold of greater opportunities. Candor, however, requires me to make another observation: It is by no means certain that we can cross the threshold of our opportunity unless we can resolve, in a timely manner, a growing array of problems.

I might appropriately begin by speaking of the Institute itself. We are now engaged in an intensive study in order to develop a structural design which will enable the Institute to cope with an increasing volume and diversity of work. We are hoping also to prepare the Institute to participate in the larger responsibilities of the profession which relate to the socio-economic environment of our country.

Those of us who have been involved in this review are convinced that increased reliance must be put upon the full-time staff. It is simply impossible — under the circumstances of the present — for volunteer officers and committees to keep in touch with every aspect of the day-to-day operations of the Institute. This does not mean, however, that the members should turn their organization over to the staff. It may well be that, in certain programs, more might be accomplished faster by greater dependence on the staff. But even in such cases, it is imperative to evaluate the gain in efficiency against the loss of member-

ship involvement in the work of the Institute. Moreover, there are some functions to be performed — for example, the establishment of technical standards — which cannot properly be discharged by the staff. And no one knows this better than the staff itself.

As these observations suggest, the real task before us is to develop an organizational pattern which assigns clear-cut responsibility for the formulation of policies to the appropriate representatives of the membership — and which also establishes clear-cut responsibility for the execution of those policies by the full-time staff.

The role of the executive committee

The primary instrument for policy control is and should be the executive committee. If the proposed By-Laws amendments discussed at the annual meeting are adopted, the executive committee will be slightly enlarged and it will be strengthened by added continuity of service. The executive committee should, in my view, have a fairly broad grant of authority and should act, in effect, as a board of directors for the Institute — with its decisions always subject to review or veto by the Council. Membership on the executive committee may well be an honor, but it is also an obligation and a trust — involving man-months of effort each year. In spite of these rigorous de-

In preparing for this, his valedictory address to the membership of the Institute, President Trueblood conferred in length with the Institute's executive director, John L. Carey, and its managing director, John Lawler. The speech—a realistic commentary on the status of the profession today—represents a consensus of their views.

mands, however, I am confident that there are many in our number who are qualified to assume these responsibilities and who are willing to devote the necessary time.

Decision-making processes

Some years ago Mr. Carey spoke to Council regarding his concern about the Institute's "creaking" decision-making processes. And in a recent membership survey, a major criticism of the Institute was "slowness in developing policy decisions." I think this a fair judgment, and a serious one. Nearly all of our technical pronouncements are worked out by volunteer committees, assisted by competent technical staff. But it sometimes takes years to turn out a technical guide, or an auditing bulletin.

Consider, for example, the present work of the Accounting Principles Board. During the past year its members have spent weeks in meetings, weeks in reading, and weeks in creative effort. In addition, certain firms are supplying to the Board many man-months of staff assistance. Chairman Heimbucher's participation, contribution and success are unbelievably great — especially considered in relation to his many years of great effort for the Institute, including a year as president. These burdens cannot continue indefinitely, else we will not find members willing to serve. And yet we must be able to continue to infuse this work with the peculiar knowledge and insights of the sophisticated practitioner. What is required is a judicious admixture of volunteer talent and highly qualified technical assistance. If the production of groups such as the Accounting Principles Board is to continue at its present pace (and I believe it should accelerate), we are going to have to enlarge further the technical staff supplied by the Institute to the Board and similar volunteer groups.

A full-time paid president

The structure committee has also recommended a change in the volunteer officer arrangement — suggesting employment of a full-time paid president, with annual election of a volunteer chairman of the board who would preside over meetings of the executive committee, Council and members. This proposal has been regarded as so far-reaching in its possible conse-

quences that it is being given careful further study by the executive committee.

The organizational revisions under consideration may tend toward some reduction in membership participation in the work of the Institute. Yet we know there is, even now, an unsatisfied desire on the part of many members to participate in the Institute's work. It may, therefore, be timely to re-examine the proposal to create "sections" within the Institute. Or if that idea is still an unpleasant one, other devices might be considered: the enlargement of certain committees, the organization of conferences on special subjects, the development of an even closer affiliation with state societies (perhaps going as far as a requirement for common membership). In any case, it seems imperative to find some means — without impairing the effectiveness of the Institute in performing its daily tasks — to provide opportunities for wider participation of the individual member in Institute affairs.

A need to act

Now let me turn to a few of the areas in which things need to be done, and done quickly.

The research activities of the Institute in the field of accounting principles have been greatly expanded in recent years. As I have said on other occasions, I think we are on the verge of a breakthrough in this area, and the momentum which has already developed ought to result in accelerated progress in the years ahead. This optimism, however, is no justification for any slackening of effort. We have accepted the responsibility for leadership in the improvement of corporate reporting for investors. And a great deal more needs to be done before that mission has been completed — if, indeed, it will ever be completed.

Moreover, we need additional research in auditing, in taxes, and in management services. Perhaps the most immediate need is for a better understanding of the developments in management information systems for both large and small businesses. Other groups are doing a considerable amount of work in this field. We must at least match — and hopefully surpass — their efforts.

The demand for some type of recognition for superior competence in special fields of accounting continues to mount. Nothing has been done about this so far — except to talk about it. But

it seems to me that some arrangement ought to be devised to enable people who have competence in specialized areas of our expanding profession to obtain some symbolic evidence of that accomplishment. Something, surely, is lacking if the CPA certificate remains the highest accolade that an energetic young accountant can achieve.

Most everyone seems to be deeply worried about the independence of CPAs — except perhaps CPAs themselves. There has been a rash of articles and speeches discussing the extent to which management services and tax practice may impair an auditor's independence, or at least the appearance of his independence. Much of this discussion, in my view, has been superficial. Some of it has seemed to be more a game with words, than an exercise in logic. Yet the skeptics need be answered; and the answers must be persuasive to the public — not merely to ourselves.

A rededication to professionalism

This recital of concerns could be continued, but perhaps what I have said is enough to indicate that all of us have a lot to do if the promise of this profession is to be fulfilled.

Each of the problems calls for a specific solution. Yet all of the problems, in a sense, require a rededication to the basic ideals of professionalism.

We must be prepared to assert ourselves together as a social force in our economy.

We must be prepared to pool our knowledge and experience through the Institute, for what

benefits the profession as a whole, benefits each of us.

We must be prepared — while remaining faithful to the traditions of our profession — to be bold in experimentation, receptive to new ideas, impatient with dogma which impedes our ability to adjust to the realities of our time.

We must be prepared, at the cost of personal sacrifice, to contribute generously of our skills to the achievement of the goals of our democratic society, for only through involvement in the vital concerns of our fellow man, can we hope to realize the full potential of the art of accounting.

We must also be prepared to invest additional funds in the Institute. Top-flight talent, as we all know in our own firms, is at a premium. If we accept the premise that a superior staff is essential to the accomplishment of our goal of distinction, then the financial resources available to the Institute must be considerably increased. And if we commit ourselves to additional research (as we must), the financial burden will be further increased.

This brief review of the problems which we face is, I suppose, likely to produce one of two reactions. Some may be dismayed by the multitude and complexity of our concerns. Others may regard this inventory of concerns as cheering evidence of the vitality and growing significance of our profession. If enough of us recognize our concerns as a challenge — and if enough of us set out jointly to resolve them—then we can all look forward to the future with confidence and with faith.

Statements on Responsibilities in Tax Practice No. 4

The Institute's tax committee has approved for publication *Statements on Responsibilities in Tax Practice No. 4*. The statement considers whether a CPA may sign the preparer's declaration on a federal tax return in which the treatment of an item differs from that consented to by the taxpayer for a similar item as a result of an administrative proceeding concerning a prior year's return.

The selection of the treatment of an item, the statement points out, should be based on the facts and the rules as they are evaluated at the time the return is prepared. Unless the taxpayer

is bound as to treatment in the later year, the disposition of an item as part of concluding an administrative proceeding by the execution of a waiver for a prior year does not govern the taxpayer in selecting the treatment of a similar item in a later year's return.

Therefore, the statement concludes, if justified by the facts and rules then applicable, a CPA may sign the preparer's declaration on a return containing a departure, and such departure need not be disclosed.

The statement will be mailed to members early in November.

Institute's computer consultant makes first report to Council

The Institute's computer consultant, Professor Gordon Davis, made his first report to Council at the annual meeting. Professor Davis is on a year's leave of absence from the University of Minnesota, where he heads the Computer Center. This is part of his report:

The computer's impact on the world of the CPA will be on a par with other major events such as the establishment of the Securities and Exchange Commission or the passage of the income tax laws. It is therefore imperative that the Institute have an in-house computer advisory staff.

One of our most important activities during the coming year will be the definition of staff responsibilities and hiring of a permanent computer advisory staff, which will probably consist initially of two professional staff members.

During the coming year we hope to make a significant impact with several projects which are already under way.

EDP for record keeping

The first of these is the study of the problems of auditing of companies which use electronic data processing for record keeping. A task force was appointed in March 1966 for this purpose. It consists of eight members who are knowledgeable in both electronic data processing and auditing EDP. The task force is preparing a comprehensive report, the purposes of which are:

1. To guide CPAs in auditing organizations which use computers for record keeping
2. To provide source materials for AICPA members who do not audit EDP but who wish to be informed
3. To provide a starting point for building a consensus of expert opinion on standards for auditing EDP
4. To suggest the utility and applicability of different methods for auditing where there is insufficient present experience to justify an expression of preferred practice.

A final draft of the report is expected by the end of this year, and publication will follow in the spring of 1967.

A second activity is in representing the interest of CPAs in groups preparing EDP standards. The two major centers of standards effort are the X3 Committee on Computers and Information Processing of the United States of America Standards Institute (formerly the American Standards Association), and the Bureau of Standards Center for Computer Science and Technology. The Bureau of Standards group will be preparing government standards for data processing.

The AICPA is now represented on the USA Standards Institute X3 Committee and is in contact with the work of the Bureau of Standards Center.

Computer education for CPAs

Another major project is computer education for CPAs. The professional development division of the AICPA has been handicapped by the lack of computer advisory services in the AICPA staff. As part of the computer consulting work during the coming year new courses for professional development in computers are being developed. These will use new teaching methods and will emphasize the "hands-on" approach to learning about computers. The intention is to make basic computer instruction easily available to every CPA in the nation.

Various proposals have been made regarding the computer activities to be pursued by the AICPA. One of my current activities as computer consultant is to investigate these proposals for feasibility and cost benefit and to make recommendations to the appropriate officers and committees of the Institute. Some proposals currently being investigated are (1) a proposal for AICPA-sponsored tax preparation software, (2) a computerized information service for CPAs similar to computerized law research service, and (3) a looseleaf computer report service for CPAs.

Joint Studies by SDC and AICPA

1. Computer Survey Results—Voluntary Comments
2. Current Basic Sources of ADP Information
3. Computer Applications to Accounting Operations
4. Relations Among CPAs, Banks and Service Bureaus
5. Software Trends—Hardware Characteristics

Practice before the Treasury

IRS has issued interim instructions and procedures regarding recognition of CPAs.

Under the Right to Practice law (PL 89-332), and pending issuance by the Internal Revenue Service of amended regulations on Conference and Practice requirements and a standard nationwide declaration form, CPAs will be able to declare that they are qualified to practice before IRS by filling out "locally developed" declaration forms. The declaration, which will be avail-

able from district offices, need only to be filled out by the CPA on his first appearance before the Service, and will be presumed to remain valid at every administrative level of the Service.

The Service also announced that powers of attorney will continue to be required in accordance with present power of attorney regulations. Neither PL 89-332 nor Circular 230 is intended to exempt CPAs from the requirements for filing powers of attorney.

Tax committee comments on Treasury's newly proposed consolidated tax return regs

The Institute's tax committee on October 21 submitted to the Treasury Department a thirteen-point technical memorandum on the agency's proposed consolidated tax return regulations. The committee's comments primarily dealt with section 1.1502-19 (excess losses) and section 1.1502-32 (adjustments to the basis of investments in subsidiaries) of the proposed regulations.

On excess losses, the memorandum said:

"The entire thrust of the rules being proposed is that there will be a basis adjustment, possibly resulting in 'negative basis' if any benefit is derived by a group because of the operations of one or more of its affiliates. While this rule may be sound in some cases it can be unreal in others. For example, if the tax benefit of an operating loss contributed to a consolidated return by one affiliate can be awarded to that affiliate through reasonable earnings and profits allocation rules which permit proper tax sharing among members, we see no reason for imposing either the basis reduction or excess losses rule.

"Accordingly, even though we offer some specific suggestions concerning the proposed rules in this area, we find it necessary to protest their promulgation before regulations are proposed under section 1552. We believe reasonable rules under section 1552 would make it unnecessary to have such a major departure from longstanding income determination and basis concepts."

And on basis adjustments, the memorandum said:

"The promulgation of rules for basis adjustments (and their interplay with the rules on excess losses) should be withheld until reason-

able and equitable rules are promulgated under Section 1552, relating to the allocation of consolidated tax liability for earnings and profits.

"The proposed regulations adopt the theory that the tax benefit from losses of affiliates is necessarily appropriated by the parent or other affiliate owning the shares of the loss affiliate. As a business matter this is frequently not true, especially where there may be minority interests.

"Reasonable rules should be provided under section 1552 which accommodate appropriate financial adjustments among affiliates on account of consolidated tax liability, and any basis adjustment rules should take into account the financial tax liability adjustments which actually take place.

"As an example, if the profit members of a group actually pay over to a loss member the *tax benefit* of consolidated utilization of its losses, no basis adjustment should be required. The proper treatment of this transaction should be a reduction in the earnings and profits of the paying members and an increase in the earnings and profits of the receiving member.

Majority of originally proposed regs adopted

The major portion of the originally proposed regulations were adopted by the Treasury on September 8. Several of the originally proposed regulations were withdrawn and repropounded on that date. The newly proposed regulations cover stocks, bonds, and other obligations of members; limitations on certain deductions; consolidated section 922 deduction; basis of property; and earnings and profits.

How do accounting research studies sell? As of August 31, 1966 . . .

	1961-62	1962-63	1963-64	1964-65	1965-66	Total
Basic Postulates of Accounting (issued Oct. 61)	23,315	6,937	7,200	5,524	4,925	47,901
"Cash Flow" and the Funds Statement (issued Dec. 61)	22,369	7,707	9,026	7,575	5,301	51,978
A Tentative Set of Broad Accounting Principles for Business Enterprises (issued May 62)	13,410	8,299	8,366	6,454	5,398	41,927
Reporting of Leases in Financial Statements (issued May 62)	12,805	6,310	6,176	4,686	3,324	33,301
A Critical Study of Accounting for Business Combinations (issued July 63)		4,808	9,664	6,012	4,750	25,234
Reporting the Financial Effects of Price-Level Changes (issued Nov. 63)			11,367	6,860	5,024	23,251
Inventory of GAAP for Business Enterprises (issued March 65)				22,686	22,978	45,664
Accounting for the Cost of Pension Plans (issued May 65)				10,902	6,169	17,071
Interperiod Allocation of Corporate Income Taxes (issued July 66)					6,025	6,025
						292,352

VON MINDEN, BRUNEAU & ANTONSEN
CERTIFIED PUBLIC ACCOUNTANTS

150 BROADWAY
NEW YORK 10038

To the Members of the American Institute
of Certified Public Accountants:

We have examined the statements of assets, liabilities and fund balances at August 31, 1966, of the American Institute of Certified Public Accountants, the American Institute of Certified Public Accountants Foundation, and the American Institute Benevolent Fund, Inc., and the related statements of income and expense and fund transactions for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of assets, liabilities and fund balances and of income and expense and fund transactions present fairly the financial position of each of the aforementioned organizations at August 31, 1966, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

von Minden, Bruneau & Antonsen

SEPTEMBER 26, 1966

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES

AUGUST 31, 1966 AND 1965

GENERAL FUND

ASSETS

	1966	1965
Cash—savings accounts	\$ 40,411	\$ 783,555
Cash—other	164,579	164,455
Marketable securities, at cost (quoted market 1966—\$2,584,022; 1965—\$1,796,127)	2,717,788	1,705,669
Receivables (less allowance for doubtful accounts—\$4,000—1966 and 1965) ..	259,601	175,100
Inventories, at cost	84,853	125,461
Due from American Institute of Certified Public Accountants Foundation.....	—	51,613
Prepaid expenses	30,702	26,450
Furniture and equipment, at nominal value.....	1	1
Total assets	<u>\$3,297,935</u>	<u>\$3,032,304</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Note payable in \$5,000 semi-annual installments.....	\$ 65,000	\$ 75,000
Other payables	363,193	208,907
Dues collected in advance	1,015,922	897,842
Unearned subscriptions and advertising	441,451	424,043
Advance annual meeting registration fees	58,036	52,259
Due to Elijah Watt Sells Scholarship Fund	338	244
Total liabilities	<u>\$1,943,940</u>	<u>\$1,658,295</u>

General Fund balance:

Appropriated for contingencies	\$1,000,000	\$1,000,000
Income retained for working capital	353,995	374,009
Fund balance	<u>\$1,353,995</u>	<u>\$1,374,009</u>
	<u>\$3,297,935</u>	<u>\$3,032,304</u>

ENDOWMENT FUND

Assets:

Cash—savings accounts	\$ —	\$ 78,351
Cash—other	265	4,370
Marketable securities, at cost (quoted market 1966—\$574,453; 1965—\$572,241)	497,573	345,813
Library books, furniture and equipment, at nominal value.....	1	1
Fund balance	<u>\$ 497,839</u>	<u>\$ 428,535</u>

ELIJAH WATT SELLS SCHOLARSHIP FUND

Assets:

Marketable securities, at cost (quoted market 1966—\$4,502; 1965—\$5,802) ..	\$ 4,655	\$ 4,655
Due from General Fund	338	244
Fund balance	<u>\$ 4,993</u>	<u>\$ 4,899</u>

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

STATEMENTS OF INCOME AND EXPENSE

YEARS ENDED AUGUST 31, 1966 AND 1965

INCOME

	1966	1965
Membership dues	\$1,829,965	\$1,722,662
Investment and sundry income	164,820	132,869
General income	<u>\$1,994,785</u>	<u>\$1,855,531</u>
Self-supporting activities:		
CPA examinations, Journal of Accountancy (non-members), Management Services magazine, Professional Development program, sale of miscellaneous publications:		
Gross income	\$2,729,561	\$2,553,524
Cost of self-supporting activities	2,476,371	2,308,068
Net Income from self-supporting activities	<u>\$ 253,190</u>	<u>\$ 245,456</u>
Total	<u>\$2,247,975</u>	<u>\$2,100,987</u>

EXPENSE OF ACTIVITIES AND PROJECTS

Direct Service to Members:		
Journal of Accountancy, CPA, membership directory, technical publications, library, communications with members, annual meeting	\$ 792,220	\$ 608,222
Maintenance of professional standards:		
Accounting research (see special credit), auditing procedure, ethics, personnel recruiting, research in Common Body of Knowledge (see special credit)	519,870	510,229
Relations with state societies	94,616	89,563
External relations:		
Federal government, Federal taxation, aids to education, universities, and other outside groups	344,851	270,151
Internal affairs:		
Council and committees (including Executive Committee), maintenance of membership	271,199	196,307
Service activities not allocated:		
Accounting and finance, service functions, general management, legal fees.....	460,422	405,441
Total regular expense	<u>\$2,483,178</u>	<u>\$2,079,913</u>
Excess of expenses over income, before special credit.....	<u>\$ 235,203</u>	<u>\$ [21,074]</u>
Special credits:		
Contribution from American Institute of Certified Public Accountants Foundation for accounting research program	✓ \$ 215,189	✓ \$ 135,792
Contribution from Carnegie Corporation toward costs of research in Common Body of Knowledge	—	18,758
	<u>\$ 215,189</u>	<u>\$ 154,550</u>
Transferred to income retained for working capital—[deficit].....	<u>\$ [20,014]</u>	<u>\$ 175,624</u>

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED AUGUST 31, 1966

	General	Endowment	Elijah Watt Sells Scholarship
Balance, September 1, 1965.....	\$1,374,009	\$428,535	\$ 4,899
Excess of expenses over income.....	20,014	—	—
Excess of income over expenses.....	—	—	94
Gain on sale of securities.....	—	69,304	—
Balance, August 31, 1966.....	<u>\$1,353,995</u>	<u>\$497,839</u>	<u>\$ 4,993</u>

AMERICAN INSTITUTE BENEVOLENT FUND, INC.

STATEMENTS OF ASSETS AND FUND BALANCE

AUGUST 31, 1966 AND 1965

Assets:	1966	1965
Cash—savings accounts	\$ —	\$ 10,902
Cash—other	5,960	13,908
Marketable securities, at cost (quoted market 1966—\$488,475; 1965— \$563,074)	501,278	499,900
Accrued interest receivable	441	422
Fund balance	<u>\$ 507,679</u>	<u>\$ 525,132</u>

STATEMENTS OF CHANGES IN FUND BALANCE

YEARS ENDED AUGUST 31, 1966 AND 1965

Receipts:		
Bequest of Harold Burton Hart	\$ —	\$ 193,100
Other contributions	558	5,415
Income from investments	20,674	22,247
Gain [loss] on sale of securities	881	[603]
Total	<u>\$ 22,143</u>	<u>\$ 220,159</u>
Disbursements:		
Assistance to members	\$ 38,707	\$ 16,415
Stationery, printing and other expenses	889	686
Legal fees	—	1,451
Total	<u>\$ 39,596</u>	<u>\$ 18,552</u>
Net increase [decrease] in Fund	<u>\$ [17,453]</u>	<u>\$ 201,607</u>
Fund balance, beginning of year	525,132	323,525
Fund balance, end of year	<u>\$ 507,679</u>	<u>\$ 525,132</u>

NOTE—The Harold Burton Hart Fund represents 36.6% of the Fund balance at August 31, 1966 and 1965.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS FOUNDATION

STATEMENTS OF ASSETS AND FUND BALANCE

AUGUST 31, 1966 AND 1965

Assets:	1966	1965
Cash—savings accounts	\$ —	\$ 512,917
Cash—other	3,652	17,237
Marketable securities, at cost (quoted market 1966—\$623,402; 1965— \$251,783)	639,310	239,146
Accrued interest on securities purchased	77	—
	<u>\$ 643,039</u>	<u>\$ 769,300</u>
Liabilities:		
Due to American Institute of Certified Public Accountants General Fund.....	\$ —	\$ 51,613
Fund balance:		
Accounting research program	\$ 542,414	\$ 617,062
Library (including permanent capital of \$2,747)	100,625	100,625
Fund balance	<u>\$ 643,039</u>	<u>\$ 717,687</u>
	<u>\$ 643,039</u>	<u>\$ 769,300</u>

STATEMENTS OF CHANGES IN FUND BALANCE

YEARS ENDED AUGUST 31, 1966 AND 1965

Income:		
Income from securities, less custodian fees	\$ 26,616	\$ 28,127
Gain [loss] on sale of securities	[947]	22,727
Contributions received:		
For support of accounting research program	119,233	67,763
Miscellaneous	—	5
Total	<u>\$ 144,902</u>	<u>\$ 118,622</u>
Disbursements:		
Contributions to American Institute of Certified Public Accountants:		
For library expense	\$ 4,000	\$ 4,000
For costs of accounting research program	215,189	135,792
Stationery, postage and other expenses	361	377
Total	<u>\$ 219,550</u>	<u>\$ 140,169</u>
Net increase [decrease] in Fund	<u>\$ [74,648]</u>	<u>\$ [21,547]</u>
Fund balance, beginning of year	717,687	739,234
Fund balance, end of year	<u>\$ 643,039</u>	<u>\$ 717,687</u>

At the annual meeting Council also . . .

. . . approved a statement entitled "A Description of the Professional Practice of Certified Public Accountants" (The CPA, June 66, p. 6). It will be an official policy statement of the Institute and will be distributed to all members in leaflet form. The statement will also be included in future issues of the pamphlet containing the By-Laws and Code of Professional Ethics. The text of the statement will be reprinted in the December Journal of Accountancy.

. . . heard W. Kenneth Simpson report, for the Board of Examiners, that honor roll states for the May 1966 CPA examination—those states with passing percentages in each of the four subjects higher than the national averages in each of the four subjects—were: Arizona, Colorado, Florida, Illinois, Minnesota, Missouri, Vermont, Wisconsin and Wyoming.

Charles B. Couchman

Charles B. Couchman, president of the American Institute from 1930 to 1932, died in St. Petersburg, Florida, October 4 at the age of 87.

His pioneering efforts in a variety of the Institute's activities laid the groundwork for many of its present programs. It was, for example, during his two terms as president that close relations were established with the New York Stock Exchange, culminating in the policy that the financial statements of corporations listing new or additional securities be accompanied by the certificate of an independent auditor.

A memorial resolution passed by the Institute's executive committee reads in part:

"He will also be remembered as a man whose friendly, outgoing personality won him countless friends both within and outside the profession.

"Practitioner, teacher and adviser, his professional and personal standards inspired the loyalty of his staff, the admiration of his colleagues and the confidence of his clients."

the CPA NOVEMBER 1966

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DECEMBER 1966

Members will vote next month on proposed changes in By-Laws and Code/page 11

A referendum ballot presenting two proposed amendments to the Institute's By-Laws and a change in the Code of Ethics will be mailed to all members next month. The By-Law changes would increase the size of the executive committee, and permit automatic suspension of members who have been convicted of serious crimes or who have lost their certificates for disciplinary reasons, and permit reinstatement of expelled members after three years. The other proposal is to delete the competitive bidding rule.

APB holds press conference to announce release of Pension Plans opinion

On November 28 the Accounting Principles Board for the first time held a press conference to announce the release of an opinion. The opinion, "Accounting for the Cost of Pension Plans," becomes effective with 1967 corporate earnings statements, and is aimed at narrowing the accounting practices applicable to pension costs. According to APB chairman Clifford V. Heimbucher, the opinion "marks a great step forward for the accounting profession." (See page 4 for an article by the Institute's public relations counsel on the implications of "Accountancy in the Public Eye.")

International accounting aid project gains momentum

Plans to assist a developing country in the Western Hemisphere to study its accounting, auditing and reporting standards are making headway (*The CPA*, Sept. 66, p. 2). Joining the AICPA in pledging \$10,000 each to implement the exploratory phase of the project are the Inter-American Development Bank, the Agency for International Development and the International Finance Corporation. A total of \$50,000 is needed to carry out the first phase.

An individual study approach to statistical sampling

A new type of professional development program—specially designed for individual study—has been inaugurated by the American Institute. First in the series is an introductory course, "An Auditor's Approach to Statistical Sampling." Later courses will cover "attribute" and "stratified" sampling.

The series features programed learning texts which virtually necessitate that the practitioner absorb each point thoroughly before going on to the next one. Additional details will appear in the January *CPA*.



from the President
HILLIARD R. GIFFEN

Enforcing a uniform code of ethics

Having served for many years as a member of the California State Board of Accountancy, I am familiar with the heavy burdens on state board members and the serious responsibilities which they assume. I think that these burdens and responsibilities are bound to become greater.

One of the most urgent problems is the enforcement of a uniform code of ethics on the whole profession. I believe that the state boards of accountancy must take the major part of the burden of enforcement. Unless they do, I think there is a real danger that the profession will be widely discredited.

As you all know, the profession has been receiving a great deal of publicity in the past few years. It is increasingly in the public eye. Statements have been made by financial analysts, prominent bankers and journalists which raise questions about the professional standards of CPAs. It is even sometimes difficult to explain to some of our personal friends why disciplinary action has not been taken against a practitioner in our own community.

A few months ago a member of the Council wrote the president of the Institute [Mr. Trueblood] expressing concern about the failure of many CPAs to observe the accepted standards of practice. He cited one accountant's certification which began "I hereby certify that I have written up the cash receipts and disbursements. . . ." Another CPA was quoted as saying that since he could not observe all the inventories for calendar-year audits, he simply qualified his opinion.

Another CPA was cited who gave a clean opinion on a bank audit which he conducted all alone without any staff assistance whatever. This Council member suggests that there are thousands of cases like these which go unobserved.

Ethics and compliance

In recent years the Institute has greatly expanded its efforts in the field of ethics and compliance. The committee on professional ethics has been enlarged and divided into subcommittees. The Trial Board has been broken up as a panel. The staff devoting full time to these matters has been enlarged. The total annual expenditure in the area of ethics and compliance is approximately \$75,000. In the fiscal year 1964-65, the latest for which complete figures are available, the Institute handled 70 formal complaints and conducted 16 trials which resulted in the expulsion, suspension or reprimand of 15 members.

The Institute now has more than 56,000 members, and by 1970 will probably have 70,000. It seems clear on the face of it that the Institute alone cannot police the ethical conduct of such a large group.

The state societies also have codes of ethics and ethics committees. However, except for per-

President Giffen's column this month is an adaptation of the speech he delivered before the meeting of the Association of CPA Examiners at the annual meeting last October.

Editor: Richard C. Brown

Production Assistant: Carolyn Evans

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haps a dozen of the largest societies, these committees have little staff assistance and no investigatory machinery. They can usually act only when a formal complaint is submitted to them. Since they are legally independent of the Institute, they often take action on the same cases with which the Institute is dealing, and thus there is a duplication of effort. Occasionally, and unfortunately, a state society's and the Institute's ethics committees will reach different conclusions. Meanwhile, the member concerned has had to defend himself in two forums.

A need for decentralization

But the greatest weakness of the present situation is that even when a member is expelled from the Institute or a state society, he can continue to practice as a CPA unless the state board revokes his certificate. CPAs who are not members of either a state society or the Institute are free of all restraint except those imposed by the state boards.

It seems to me the time has come to plan for a widespread decentralization of the disciplinary function, and for the state boards to play a far more active role than in the past.

- In 52 jurisdictions the state boards of accountancy, for the most part, or other administrative agencies of the state, possess statutory authority to revoke a CPA certificate.

- In 45 jurisdictions a CPA certificate may be suspended.

- In 30 jurisdictions a state board has the right to censure or reprimand a CPA.

- In 37 jurisdictions the board may cancel registration or refuse to renew a permit to practice.

- In 43 jurisdictions rules of professional ethics have been promulgated by state boards.

However, these powers are not exercised very widely except in a few states. In June of 1966, the Institute staff sent a questionnaire to state boards asking for information about recent disciplinary actions on the part of the boards. So far it has received 47 replies. The replies show that in a period of four and a half years 118 disciplinary actions have been taken by state boards in 28 states. Nineteen of the 47 state boards held no hearings in this period. Of the 28 states which did, New York and California accounted for 40 of the 118 cases. Arizona and the state of Wash-

ington accounted for 26 more. Florida and Kentucky accounted for 12. In other words, 6 states accounted for 78 of the 118 hearings.

Of the entire 118 cases reported in the 28 states, 36 resulted in revocations of certificates or licenses; 38 in suspensions, and 33 in reprimands. In 11 cases the complaints were dismissed.

I am fully aware of the difficulties involved in increasing disciplinary activity by state boards. Most state board members serve without compensation. The only legal facilities available to them are in the state attorney's office. With few exceptions, the boards have no paid investigators. The time and labor involved in dealing with a single case are tremendous.

In order to do an effective job a state board should have paid investigators and legal counsel. Complaints should be invited from the general public and from credit grantors, government agencies and others who rely on CPAs' opinions. Paid staff should be available to process the complaints. All this will require money. If the state boards cannot obtain the necessary funds from the state governments, then perhaps the state societies or the Institute should subsidize their activities in this field.

If what I have been saying is valid, the expenditure of these funds in a very real sense would have a strong public relations aspect.

The experience of one local bar association is interesting. It maintains a professional ethics committee of about 20 lawyers. The members act in panels which meet each week to hear complaints. Several lawyers are employed as full-time staff and they present the complaints to the panel. When there appears to be a serious infraction, the panel submits findings and recommendations to the executive committee of the association. If the executive committee agrees, the case is presented to the courts, which may censure, suspend or disbar the lawyer under charges.

One possible solution

Perhaps some similar procedure should be devised in the accounting profession. The state societies might invite the complaint. Their committees and staff might do the investigating and screening job. When serious infractions appear, the state societies might present the complaint to the state boards for final action.

In one way or another, the CPA profession

must rid itself of the relatively few dishonest and incompetent members, or I fear it may suffer a serious impairment of public confidence.

So, in my opinion, the Association of CPA Examiners has some formidable tasks before it:

- The Uniform CPA Examination should be continually modified in the light of the realities of practice.
- Steady progress should be made toward uniform education and experience requirements for the CPA certificate.
- Perhaps most important, more state boards

should assume an aggressive role in the enforcement of the ethical codes.

In all these areas, the Institute, as you well know, stands ready to co-operate fully. We are fortunate in the excellent working relationships which have been established between the Association and the Institute. You members of state boards, who are on the firing line, are the only ones who can act effectively in the real-life situations. We in the Institute, however, will support you to the fullest extent possible through our committees, our staff and our financial resources.

Accountancy in the public eye

By Stewart Schackne, AICPA public relations consultant

In recent weeks the profession has been the subject of much discussion in the general and business press. Some of the articles, especially in a few of the more well-known publications, have not pleased accountants, to put it mildly.

A number of members have telephoned or written the Institute to express dismay or ire, and to ask in effect: "What's to be done?" For everyone who has done this, there are no doubt countless more who have the same feelings and the same question. So the editor of *The CPA* suggested that I attempt some comment in these columns.

The main causes of the press attention which the profession has been receiving have been mentioned in speeches and writings by officers and members of the Institute and its staff. But it may be useful to recapitulate them here.

CPAs are more in the public eye than they used to be. The spread of stock ownership, the increased role of accountants in business life, and the greater public awareness of accountants' importance have focused attention on them. And when any group is in the spotlight, the chances are that it will get some bouquets—and some brickbats.

The publicity, however, has not by any means been all unfavorable. And the Institute is taking numerous steps to portray the positive accomplishments of the profession. Background information has been furnished to financial writers. Institute presidents and the chairman of the Accounting Principles Board have appeared before such organizations as the Financial Executives Institute and the Hayden Stone Forum.

Nevertheless, when things go wrong, even in isolated instances, CPAs become potential targets for criticism. And derogatory remarks have a much better chance of landing on the front page than praise for good works.

Accountancy is not the only profession in this position.

Two or three weeks ago *The New York Times Sunday Magazine* carried an article entitled "The Doctor's Image Is Sickly"—and headlined a photo-spread, "What Ever Became of Good Old Doc?" On November 20 the *Sunday Book Review* of the same newspaper contained an advertisement for a book described as "The story of America's most powerful lobby—organized medicine—and its forty-five year, multi-million dollar fight against public health legislation."

The price of prominence

Just a few days ago a CPA passed along to the Institute a jocular note he had received from his brother, a lawyer. The note, attached to a clipping of a critical newspaper item, read: "CPAs must have attained the professional status of attorneys to be attacked like this. I expect to see soon a best-seller entitled, 'How to Avoid Audit.'"

This does not mean that CPAs should seek the kind of comfort suggested in the saying that misery loves company, or that the profession's problems are lessened by the fact that others have them too. But it does provide some perspective on the price of prominence.

Another factor underlying the press attention is that although accountancy has made great

progress, and financial reporting by corporations is better than ever before, there has been a concurrent change in what the public expects of corporate managements and of professions which serve vital public interests. It's like raising the bar for the high jump several notches.

A third factor is that some business practices, which were virtually impossible to detect when the economy (and the stock market) were in a long and strong rise, have led to newsworthy trouble under present conditions. And, what with the increased prominence of accountancy, CPAs have been brought into the ensuing legal actions and news stories.

Finally, there is a sort of chain reaction in news reporting. That is, today's stories draw some of their material and tone from preceding stories, and in turn become material for future ones.

Which brings us to the question: What's to be done?

The first thing is to avoid thinking that critics, without exception, are total ignoramuses. Instead the criticism must be analyzed to see whether it may have at least a grain of justification. When it can be seen that something has been done, or has not been done, to bring on criticism, the faults ought to be acknowledged, at least to oneself, and steps taken to correct them.

It is a normal instinct to hit back when attacked. But (although there are exceptions to the rule) this is generally ill-advised where public relations is concerned. For the object of public relations is not to muzzle critics, which is impossible, but to win them over—and a combative posture usually doesn't help to do that.

Letters to an editor or reporter temperately presenting arguments counter to those he has printed, or pointing out demonstrable inaccuracies, can be useful. But letters merely expressing indignation, pain, or surprise "that a publication of your standing, etc. . . ." count for virtually nothing. An editor who doesn't get a few letters every month, canceling subscriptions because of something he has printed, fears his publication is becoming dull.

What the Institute is doing about it

The Institute is taking actions with respect to the publicity the profession has been receiving.

First, effort is being made to establish more channels of communication with the press. A

seminar for financial writers was held for representatives of newspapers in the northeastern states last June. A second is scheduled for early December in Chicago. Others are planned for next year.

Second, attention is being called to positive performance. For example, a press conference has just been held on the APB Opinion on accounting for pension costs. Another will probably be held on the opinion on accounting for results of operations.

Third, and very important, effort is underway to develop articles apart from the matters that are now so conspicuously discussed in the press; articles that will tell about the profession and individual CPAs interestingly and in an attractive light.

Results will not be apparent tomorrow or next week, however. When a strong current of publicity is running, it takes time to turn it around.

And on the brighter side . . .

Meanwhile, it is worth repeating that not all recent publicity has been on the negative side. A news release on Auditing Statement No. 37 (on public warehouses) struck a constructive note and was widely printed. An article by John L. Carey was published in *Banking* and reprinted elsewhere. The *Christian Science Monitor* told its readers across the country that the accounting profession "is planning some important reforms that will bring more uniformity, and consequently more clarity, into published financial statements."

An article in *Forbes* ended: "The old image of the accountant as a silent, grim-faced man in a green eye shade sitting apart from the mainstream of business is completely out of date. He's now a top management consultant, and that role is going to grow."

The magazine *Boston*, in an extensive article titled "A Profession Reaches the Top," concluded that the profession "is assuming an increasingly important position at the center of the entire business information system and, in a growing number of instances, at the corporate top."

That more stories displeasing CPAs will appear in coming months is a virtual certainty. What we can do, and are doing, however, is to take steps to increase the ratio of the favorable to the unfavorable.

IRS agrees to modify its extension policy; AICPA will watch 1967 filings "very closely"

The Internal Revenue Service has taken steps to modify its extension policy, although it has rejected a proposal by the American Institute's tax committee calling for an automatic extension of time for filing individual income tax returns where workload of the CPA is involved. Sheldon S. Cohen, Commissioner of Internal Revenue, said that the Service "has gone as far as it can possibly go, administratively."

Basically, this is what IRS will do:

It will revise Form 2688, Application for Extension of Time to File U.S. Individual Income Tax Returns. The new form will provide that, where authorized by the taxpayer, the application may be signed by an attorney, CPA or enrolled agent.

It will clarify its internal guidelines, which have been issued for the handling of cases in which an extension is being sought because of the practitioner's workload. This will be done to assure a better understanding on the part of the district IRS offices of the Service's policy and a greater recognition of the Service's obligation to give uniformity of treatment to all taxpayers.

The AICPA tax committee's current attempt to convince the Service of the need for improvement in its extension policy began last March when it requested IRS to allow a CPA prepared extension request based solely on the practitioner's workload to be granted automatically.

The Commissioner felt that an automatic policy would almost certainly increase the number of extensions requested and that the necessary follow-up on the increased number of requests could not be handled by existing administrative machinery.

The Commissioner also felt that an automatic policy would invite substantial abuse which would contribute to the administrative problem. He said that such a policy would be unfair to the many millions of taxpayers who do not have their returns prepared by others and who are required to file timely returns. All these reasons, he added, militate against the adoption of an automatic extensions policy.

The committee's most recent proposals, which were made on October 6, were that:

All requests for extensions based upon practitioner workload should be granted. The extension requests should be filed no later than April 10, and the extension period should not be for less than 30 days.

This policy should apply only to CPAs, lawyers and enrolled agents in view of the controls which may be exercised by the Service over these preparers.

As a procedural matter, CPAs, lawyers and enrolled agents should be permitted to file the extension requests on behalf of the taxpayer,

(continued on page 7)

Tax Committee Chairman on Extensions

Donald T. Burns, General Chairman of the Institute's tax committee, had this to say about the extensions matter. "A restrictive Internal Revenue Service extensions policy can be supported only in the face of demonstrated practitioner abuse. Therefore, it is essential that CPAs judiciously avoid abusing the privilege.

"By and large I feel that CPAs have cooperated with the IRS by not requesting extensions except when they are actually needed. Unfortunately, however, a small number who would abuse the privilege creates difficulties for the majority of practitioners who diligently attempt to prepare timely returns, even in the face of unbearable workload pressures.

"In some cases members have run into problems in obtaining extensions because they have not adequately complied with the requirements.

"I urge all CPAs to prepare their extension requests with complete and specific reasons for the request. Diligent effort should be made to comply with the requirements of IRS Announcements 60-90 and 63-113.

"The chances of a request being granted under these circumstances are far greater. Also, time will be saved by avoiding the need to provide the IRS with additional information or to make a personal visit to the District Director's office in attempting to obtain an extension on a request rejected the first time around.

"Requests submitted with little or no explanation are looked upon by the IRS with suspicion. Equally suspicious are requests made in bulk at one time with the same reason for each request. A request should be submitted to the IRS as early as the determination of the need for one becomes evident."

avoiding the time-consuming necessity of having the taxpayer sign the extension request.

In preparing its recommendations, the tax committee last spring requested information from 2,618 accounting-member firms and individual practitioners. Responses were received from 711.

The results of the survey, the tax committee

feels, clearly illustrate the increasing burden faced by the CPA-tax practitioners to prepare more returns of increasing complexity in less time. A tax committee spokesman said that the committee will be watching 1967 filings "very closely" and, if there is no substantial improvement, the Institute will push for legislative action.

Medicare committee submits recommendations to HEW; questions Blue Cross Association proposal

The Institute's Medicare committee has submitted six recommendations to the Department of Health, Education, and Welfare. At the same time, it has raised objections to a proposed Blue Cross Association agreement.

The committee prepared the recommendations at a November 17 meeting at which representatives of the Social Security Administration, the Department of Health, Education, and Welfare, Blue Cross Association and Associated Hospital Service of New York were present as observers.

The recommendations are that:

SSA should require that every provider hospital have an examination of its financial statements and an appropriate opinion be expressed on the cost reimbursement report considered in relation to the financial statements taken as a whole.

The SSA audit program should be followed as a minimum audit program by the initial auditor.

The provider should authorize the work papers of the provider's auditor to be available to the auditors for the intermediary.

The intermediary (usually, an insurance company) and his auditor should determine the extent to which reliance may be placed on the work performed by the auditor of the provider. The AICPA Medicare committee will prepare recommended model language to satisfy the reporting requirements appropriate under the circumstances.

Before a final draft of the proposed subcontract for auditing services, presently under consideration for release to intermediaries, is completed and issued, the Medicare committee indicated it would appreciate the opportunity to review the contract to determine whether the contract is in conformity with published stand-

ards of the accounting profession and is within the auditor's competence to perform.

All information pertinent to the cost reimbursement audit should be freely available to all performing audits for providers or on behalf of intermediaries. The AICPA offers its services to disseminate information which would be helpful to those conducting initial audits of providers and cost reimbursement examinations.

The committee submitted the recommendations to HEW and indicated it would welcome the opportunity to discuss the recommendations with appropriate HEW representatives.

Representatives of the committee also held informal discussions with Blue Cross Association representatives concerning a proposed agreement for Blue Cross Plans and public accounting firms performing Medicare audits. The agreement, together with Provider Relations Bulletin No. 34, was distributed on November 14, 1966 to Blue Cross Plans to serve as a basis for contract discussions between independent public accountants and Blue Cross Plans. The committee representatives indicated that it considered certain sections of the proposed agreement to be objectionable because of proposed requirements dealing with such matters as restriction of services, costing adjustments for services rendered, and the content of the auditor's report. The committee was advised that its comments will receive consideration by the Blue Cross Association in the development of the final version of the proposed agreement.

The committee urges members to consider carefully all requirements of the proposed agreement with extreme care in their discussions with the various Blue Cross Plans and to be alert to the inherent dangers which may be at conflict with the best interests of the profession.

New Institute film previewed in Radio City theatre

More than ninety teachers and administrators from the New York City Board of Education previewed the Institute's new film, *Inc.*, on October 26 at the Johnny Victor Theater in Radio City, New York.

Introducing the film, AICPA managing director John Lawler noted that CPAs are "the practicing micro-economists of the business and financial communities. . . . Because of their role in society, CPAs have a vested interest in effective education in economics. CPAs suffer when economic education is inadequate. First, they run into unreasonable clients and other parties who behave irrationally because they can't read financial statements or estimate sensibly the effects of interrelated economic activities. Second, the

wrong people often go into business and accounting so that both accounting firms and their clients have personnel problems. Meanwhile, the right people for business or accounting often go elsewhere, even to careers where they are misfits."

Inc. is designed to show students what a corporation is and to suggest how it functions as the central institution in the American economy. It may be obtained on free loan from its distributor, Association Films, 600 Grand Avenue, Ridgefield, N. J. 07657; 561 Hillgrove Avenue, LaGrange, Ill. 60525; 1621 Dragon Street, Dallas, Texas 75207; 324 Delaware Avenue, Oakmont, Pa. 15139; 25358 Cypress Avenue, Hayward, Calif. 94544. Prints of the film may be purchased for \$150.

Sub-board expels one member, suspends two others

A sub-board of the Institute's Trial Board met in Cincinnati on September 13, 1966, to consider the charges of the ethics committee against three Institute members. The sub-board decided that one member should be expelled and two should be suspended. The three respondents, whose cases were held jointly, were represented by counsel.

The sub-board decided that Chester Hathaway of 1007 Transit Building, Cincinnati, Ohio, should be expelled from membership in the Institute. It found that he had violated Article V, Section 4(f) of the By-Laws in that his certificate as a CPA had been revoked by the Ohio State Board of Accountancy under a section of that state's accountancy law which provides for the suspension or revocation of a certificate on the grounds of negligence in the practice of public accounting. Prior to the meeting Mr. Hathaway had offered to resign from the Institute. The sub-board decided not to accept his resignation.

The sub-board also found that the CPA certificate of Donald Hathaway of 1007 Transit Building, Cincinnati, Ohio, had been suspended for two years by the Ohio State Board of Accountancy under the same section of the state's accountancy law. The sub-board, therefore, found that he had violated Article V, Section 4(f) of the Institute's By-Laws. The sub-board decided that he should be suspended for two years.

The sub-board found that Jack Singleton of

14515 River Forest, Houston, Texas, had had his CPA certificate suspended by the Ohio State Board of Accountancy for one year, thereby also violating Article V, Section 4(f) of the Institute's By-Laws. It was shown that Mr. Singleton's certificate had been reinstated by the state board prior to the sub-board's meeting, after a suspension of approximately four months. It was decided that Mr. Singleton's membership in the Institute should be suspended for one year.

No appeal was taken from the decision of the sub-board in any of the three above cases and accordingly, the decisions became effective on October 13, 1966.

Actions of Trial Board

On October 2, 1966, the Institute's Trial Board met in Boston, Massachusetts, to consider the charges of the ethics committee that Jacob Goldberg, 1290 Avenue of the Americas, New York, N. Y., had violated Article V, Section 5 of the By-Laws which requires the expulsion of a member who has been convicted of a crime involving moral turpitude, in that he had been convicted of bribing an official of the Internal Revenue Service, and that he had committed acts discreditable to the profession in violation of Article V, Section 4(d) of the By-Laws.

The Trial Board found him guilty as charged and decided that he should be expelled from the Institute. The Board's decision became effective on October 2, 1966.

New Publication Announcement

Management of an Accounting Practice Bulletin No. 22

Purchase, Sale and Merger of Small Accounting Firms

This new bulletin, drawn from the actual experiences of numerous CPAs throughout the country, discusses and illustrates by means of practical case examples the many critical questions which should be considered in connection with the purchase, sale or merger of accounting firms. It will prove valuable not only to CPA-practitioners who wish to expand their present practices, but also to those who hope to realize full value for their practices upon retirement or for estate purposes.

The study describes fifteen major steps which should be followed, particularly in the case of mergers. These include exchanging financial information . . . comparing fee and billing procedures . . . reviewing audit standards and procedures and staff competence . . . defining the partners' duties and share of the profits . . . determining capital investment . . . establishing a retirement plan . . . and notifying clients.

The study also examines eight factors which most frequently determine the market value of a firm; e.g., size and type of practice . . . gross fees . . . net profit . . . seller's ability to assist in the transfer . . . buyer's competence in practice management . . . depth of buyer's interest . . . and pay-out period.

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**from the Executive Director
JOHN L. CAREY**

Who Suggested Repeal of the Competitive Bidding Rule?

Members have raised questions about the origin of the proposal to repeal Rule 3.03 of the Code of Professional Ethics on competitive bidding. Here are the facts.

Prior to 1962 the rule on this subject provided in substance that Institute members must follow the rules on competitive bidding adopted by state societies and boards in the states where they practiced. In 1959, Covington & Burling, legal counsel for the Institute, advised that this rule might invite anti-trust suits because some of the state rules were particularly vulnerable to attack. Counsel's advice was to have no rule on the subject.

A year or so of discussion ensued. As a result, in view of Counsel's advice, the Executive Committee recommended that the bidding rule be eliminated from the code without substitution. However, the reaction to this suggestion on the part of members of Council and state societies was negative. In 1961, the ethics committee recommended substitution of the present Rule 3.03 for the then existing rule. Legal counsel reluctantly acquiesced, but not without a word of warning. In presenting the rule at the annual meeting, the chairman of the committee on professional ethics indicated that it was the intention of the ethics committee to issue a formal opinion interpreting the new rule. In March 1962, the new rule was approved by the membership by mail ballot. From 1962 to 1965, the ethics committee attempted to draft an interpretive opinion which legal counsel would approve as not being in violation of the Federal anti-trust law. None of these attempts was successful. The ethics committee then asked the Executive Committee whether an opinion should be issued interpreting the bidding rule, despite the objections of legal counsel. The Executive Committee decided that the views of another law firm should be obtained. As a result, the firm of Cahill, Gordon, Reindel & Ohl was asked for an opinion. Not only did they support the views of Covington & Burling with respect to the proposed interpretive opinion, but strongly urged repeal of Rule 3.03 itself.

The Executive Committee then invited partners of Covington & Burling, and Cahill, Gor-

don, who were expert in anti-trust law, to appear at a meeting of the Executive Committee November 18-19, 1965. Both the lawyers stated without equivocation that in view of the current trend of court decisions in the anti-trust area, they must advise the Institute strongly to repeal Rule 3.03. Members of the Executive Committee challenged and questioned both lawyers, but the committee was finally convinced that the Institute was exposed to serious risk in maintaining the rule on the books. Subsequently, the committee on professional ethics heard the lawyers' views at a meeting of the full committee, and after probing and questioning, was also convinced.

At the May 1966 meeting of Council of the Institute the two committees joined in recommending unanimously that the rule be repealed. The Council includes representatives of all the states. A partner of Covington & Burling addressed the Council on the subject, and responded to numerous questions. At the conclusion of the discussion, the Council resolved, by a vote of 135 to 53, to recommend to the membership that the rule be repealed.

The matter was again presented for discussion at the annual meeting of the Institute in Boston, October 3, 1966, and representatives of both Covington & Burling and Cahill, Gordon, addressed the meeting and responded to questions.

Members will receive statement of arguments

A statement of the arguments for and against repeal of Rule 3.03, based on the discussion at the annual meeting and documents made a part of the record, will be sent to all members of the Institute, together with the mail ballot on which the vote will be taken. The stenographic transcript of the annual meeting discussion was not received until early November. The task of summarizing the volume of material which must be considered in presenting the pro and con arguments—and in clearing the draft with members who have expressed themselves on both sides of the question—will undoubtedly consume several weeks. Since experience has indicated that it is unwise to make bulk mailings during the Christmas holiday season,

it is probable that the ballot will be mailed early in January. A period of 60 days from the date of mailing is allowed for voting. The results, therefore, will not be finally known until March.

It is clear from the record that the proposal to repeal the rule was not initiated by any member of the Institute or of its staff, but solely by legal counsel in the discharge of their responsibility to protect a client against what they believed to be serious risk. Written opinions of counsel will accompany the material sent to the

members along with the mail ballot.

On a number of occasions, legal counsel have indicated that state boards of accountancy which have adequate statutory authority to do so may promulgate and enforce rules against competitive bidding without the risk of violating Federal anti-trust law, since agencies of state government are not subject to such law. State societies, however, as private organizations, are presumably subject to the same risks as those to which the Institute is believed to be exposed.

Minutes of the annual meeting: Boston, Massachusetts, October 3, 1966

The seventy-ninth annual meeting of the American Institute of Certified Public Accountants convened at 9:05 A.M., October 3, 1966, at the Sheraton-Boston Hotel, Boston, Massachusetts. President Robert M. Trueblood presided.

Address of welcome

Roger Wellington, president of the Massachusetts Society of Certified Public Accountants, welcomed the members of the AICPA to Boston and to the Commonwealth of Massachusetts.

Approval of minutes

Minutes of the annual meeting of September 20, 1965, were approved as printed and circulated to the membership.

Report of the auditors

Thomas M. Antonsen, of the firm of von Minden, Bruneau & Antonsen, presented the report of the auditors (*The CPA*, Nov. 66, pp. 15-19). On motion duly seconded, the report of the auditors was received.

Introduction of guests from other countries

The chairman introduced the following guests from other countries who extended greetings from the accounting organizations in their respective countries:

J. R. M. Wilson, president of the Canadian Institute of Chartered Accountants; Sir Henry Benson, president of the Institute of Chartered Accountants in England and Wales; Ricardo Mora, president of the Instituto Mexicano de Contadores Publicos; and Washington SyCip, past president of the Philippine Institute of Certified Public Accountants.

Introduction of past presidents

The chairman announced that it was his pleasure to introduce the following past presidents of the

American Institute of CPAs.

T. Coleman Andrews, George D. Bailey, Samuel J. Broad, Percival F. Brundage, Thomas D. Flynn, Arthur B. Foye, Clifford V. Heimbucher, L. H. Penney, Louis H. Pilié, Maurice H. Stans, J. Harold Stewart, Arthur C. Upleger, Robert E. Witschey and John H. Zebley, Jr.

Report of the president

President Trueblood presented his report to the members.

Report of Council

Malcolm M. Devore, vice president and chairman of the committee appointed to prepare the report to the membership on behalf of the Council, presented a report of the activities of the Council for the fiscal year 1965-66. Upon motion duly seconded, the report and all acts of the Council during the year were approved.

Election of officers and members of Council

The chairman announced that the next order of business was the election of officers and members of Council for the ensuing year.

Thomas D. Flynn chairman, presented the report of the committee on nominations.

Mr. Flynn placed in nomination Hilliard R. Giffen, of California, for election as president. It was moved and seconded that the nominations be closed and that the secretary cast one ballot for the election of Mr. Giffen. The motion was carried, the ballot was cast, and Mr. Giffen was declared duly elected.

The new president was escorted to the dais by past presidents Clifford V. Heimbucher and Louis H. Penney.

The following members, proposed for the offices of vice presidents and treasurer, were nominated by Mr. Flynn:

Vice Presidents

George D. Anderson, Montana
 John P. Goedert, Illinois
 Ralph E. Kent, New York
 E. C. Leonard, Jr., Oklahoma

Treasurer

David F. Linowes, New York

It was moved and seconded that the nominations be closed and that the secretary cast one ballot for the election of candidates named. The motion carried, the ballot was cast and the members named were declared elected.

Mr. Flynn moved that the following be elected members of Council for the terms indicated:

For Council members at large***Three-year term***

Horace G. Barden, Illinois
 Maurice J. Dahlem, California
 Ralph F. Lewis, New York
 Herbert E. Miller, Michigan
 Walter R. Staub, New York
 Marvin L. Stone, Colorado
 Kenneth B. Wackman, New York

Two-year term

George H. Hansen, Iowa
 Harry C. Zug, Pennsylvania

For members of Council***Three-year term***

James E. Money, Alabama
 Donald A. Brunell, Arizona
 Percy W. Pogson, Jr., Arizona
 Harold M. Berlfein, California
 Gerald R. Case, California
 Jack J. Dreiman, California
 J. Wesley Huss, California
 Herman E. Ward, California
 Gordon W. Tasker, Connecticut
 Claude M. Hamrick, Jr., Georgia
 Robert W. Baltz, Illinois
 Glenn Ingram, Sr., Illinois
 Halbert A. Schussele, Illinois
 Quentin H. Covert, Indiana
 E. F. Volberding, Iowa
 Don F. Gresser, Kansas
 Joseph P. Jones, Jr., Kentucky
 W. Kenneth Simpson, Kentucky
 Sidney A. Champagne, Louisiana
 S. Howard Phipps, Jr., Maryland
 Lewis M. Foster, Massachusetts
 Morris Goodman, Massachusetts
 William R. Shaw, Michigan
 Leonard E. Richardson, Missouri
 Ralph T. Bartlett, New Jersey

Edwin T. Boyle, New Jersey
 Arthur L. Breakstone, New Jersey
 Nathan Honig, New Jersey
 Kermit J. Berylson, New York
 James J. Needham, New York
 William D. Sprague, New York
 William P. Stowe, New York
 William H. Westphal, North Carolina
 William A. Jacoby, Ohio
 Stanley D. Ferst, Pennsylvania
 George T. Helm, Rhode Island
 H. Landrith Thomas, Tennessee
 Gordon N. George, Texas
 Stanley J. Scott, Texas
 Donald L. Schoedel, Washington

One-year term

Dale J. Gage, South Dakota
 Anthony Gerharz, Jr., Montana
 Richard S. Helstein, New York
 Joseph E. Tansill, Illinois
 Dudley C. Tetro, New Hampshire
 Robert S. Warner, California

The motion for election of the candidates named was put to a vote and carried, and the members were declared elected for the terms indicated.

Election of committee on nominations

The chairman announced that the next order of business was the election of five members of the committee on nominations for the current year, stating that in accordance with the provision of the By-Laws, the Council had elected Robert M. Trueblood, of Illinois, and Leslie A. Heath, of North Carolina, to serve on the nominating committee, the first named to serve as temporary chairman until the committee elected a permanent chairman. The following were nominated:

Robert I. Cory, Kansas
 David O. Gillette, Hawaii
 Richard H. Grosse, Pennsylvania
 Benjamin Grund, New York
 Walter K. Rush, Oregon

It was moved and seconded that the nominations be closed and that the secretary cast one ballot for the election of the candidates named. The motion carried, the ballot was cast and the members named were declared elected.

Recess

The meeting recessed at 10:57 A.M. and reconvened at 2:38 P.M.

Elijah Watt Sells Awards

Kenneth B. Simpson, chairman of the Board of Examiners, presented the Elijah Watt Sells Awards

to candidates who had received the highest grades at the November 1965 and May 1966 CPA examinations.

Report of the committee on awards

J. T. Koelling, chairman of the committee on awards, presented The CPA Award for Distinguished Service of the American Institute of Certified Public Accountants, to Louis H. Penney, of San Francisco, California.

Amendments to the By-Laws

Upon the chairman's request, Hilliard R. Giffen, chairman of the committee on By-Laws, presented for discussion by the members present, proposals for amendments to the By-Laws dealing with disciplinary procedures and with enlargement of the Executive Committee (*The CPA*, June 66, pp. 14-18).

The chairman directed the attention of the members present to Article XV, Section 4, of the By-Laws, which provides that any amendment to the By-Laws or Code of Professional Ethics approved by the Council shall be presented to the annual meet-

ing for discussion by the members present but not for action, and to Article XV, Section 5, which provides that, following the annual meeting, the proposed amendments will be submitted to all members for a vote by mail, accompanied by a statement prepared by the secretary summarizing the arguments presented for and against each amendment.

Amendment to the Code of Professional Ethics

The chairman presented for discussion by the members present, the proposal for repeal of Article 3, Section 3.03 of the Code of Professional Ethics, which prohibits competitive bidding (*The CPA*, June 66, p. 18).

The chairman again reminded the members present that the proposed amendment, together with a summary of the arguments presented for and against the amendment, would be sent to all members for a vote by mail ballot following the annual meeting.

Adjournment

The meeting adjourned sine die at 5:00 P.M.